Commonwealth of Massachusetts

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2012

Martin J. Benison, CGFM
Comptroller of the Commonwealth

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Cranberry Harvest, Nantucket, MA
Photography courtesy of Massachusetts Office of Travel & Tourism.
Photographer, Michael Galvin

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2012

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Introductory Section

Letter of Transmittal
Constitutional Officers
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Certificate of Achievement

Apple Barrel, Davis Farm and MegaMaze, Sterling
Credit: Davis Farmland

Seventh generation family-run animal farm encourages interaction with pets and livestock; pony and hay rides. Corn stalk maze with three miles of pathways and bridges, covers eight acres.

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Martin J. Benison, Comptroller
One Ashburton Place
Boston, MA 02108

December 19, 2012

To the Citizens of the Commonwealth of Massachusetts, Governor Deval L. Patrick, Lieutenant Governor Timothy P. Murray, and Honorable Members of the General Court

I am pleased to transmit the Commonwealth's fiscal year 2012 (FY12) Comprehensive Annual Financial Report (CAFR) prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America. The objective of this report is to provide a clear picture of our government as a single, unified entity.

This document presents the Commonwealth's financial information on three bases of accounting, each serving a different purpose. The back of the report includes "required supplementary information" budgetary basis statements, which are prepared in accordance with the Commonwealth's budgetary basis of accounting or statutory basis. More detailed information on the statutory basis of accounting and the results of operating on that basis from FY12 are found in the Statutory Basis Financial Report (SBFR) issued separately this past October. The SBFR report documents compliance with the legislatively adopted budget at a fund level. Further documentation is found within the Commonwealth's accounting system, the Massachusetts Management Accounting and Reporting System (MMARS). Each state maintains different rules for budgetary reporting and therefore the SBFR should not be used for comparison across states.

The fund perspective statements present the governmental operations on a modified accrual basis of accounting. The fund perspective is designed to measure inter-period equity, the extent to which current resources (available within the next year) fully fund all current services provided by the government. Long-term liabilities are excluded with the implicit assumption that future tax revenues will fund these liabilities as they come due. This fund perspective provides results similar to the statutory basis financial statements published in November.

In addition to the fund perspective, this CAFR presents a government-wide perspective. This perspective combines all governmental and business activities in a statement of net assets and a statement of activities, presenting all functions on a full accrual basis of accounting. All capital assets are added to the government-wide statements as are all long-term liabilities. Funds that are shown as fiduciary under the fund perspective are not portrayed in the government-wide statements, as the assets do not belong to the Commonwealth.

In the government–wide statements, the balance sheet has been organized into a "net assets format." This format classifies all assets and liabilities as short and long-term and then subtracts liabilities from assets to arrive at net assets.

The Commonwealth's government-wide revenues, expenses and activities are included in the statement of activities. The expenses of the Commonwealth, organized by activity, are netted against fees, fines, grant revenues and assessments generated to fund each activity in an attempt to derive the net cost to the taxpayer of each activity. The format allows the reader of the financial statements to discern the net cost of a particular function of government funded by taxation and other general revenues by a review of this statement.

This CAFR is presented in three sections: **Introductory**, **Financial** and **Statistical**. The **Introductory Section** contains an overview of current initiatives and summary financial data. The **Financial Section** contains the Management's Discussion and Analysis (MD&A) section and the Commonwealth's Basic Financial Statements. GAAP requires that management provide a narrative overview and analysis to accompany the basic financial statements in the form of an MD&A. This letter of transmittal is designed to complement the MD&A, where the financial analysis is presented. The Commonwealth's MD&A can be found immediately following the independent auditors' report. The **Statistical Section** contains selected financial and demographic information. It also contains background information on the Commonwealth.

PROFILE OF THE COMMONWEALTH

The Commonwealth of Massachusetts was the sixth of the original 13 colonies to ratify the United States Constitution, joining the United States on February 6, 1788. Boston, the capital of the Commonwealth since its founding, dates from 1630. The Commonwealth has an area of 8,257 square miles. Geographically, the Commonwealth includes 351 cities and towns. The largest city is the capital, Boston. Employment is largely in the education, health services, wholesale and retail trade, financial and public sectors. Due to the Commonwealth's high levels of basic education and the presence of world-class educational institutions, the Commonwealth's economy is driven in large part by innovation in high technology, life sciences, health care and business services.

The Massachusetts Constitution was ratified in 1780 while the Revolutionary War was still in progress, nine years before the United States Constitution was adopted, and is the oldest written Constitution now in use. It specified three branches of Government: Legislative, Executive, and Judicial. "The Great and General Court," elected every two years, is made up of a Senate of forty members and a House of Representatives of one hundred and sixty members. It is the second oldest democratic deliberative body in the world.

The table on page 3 reconciles the fund balances on three bases of accounting: the statutory basis presented in separately issued financial statements this past October; the fund basis; and entity-wide basis statements, the latter two of which are included in this report.

Governmental Funds - Statutory to GAAP - Fund Perspective and to Governmental Net Assets
(Amounts in millions)

Governmental Funds - Statutory Basis, June 30, 2012:			
Budgeted Fund Balance	$	1,989.7	
Non Budgeted Special Revenue Fund Balance		2,059.5	
Capital Projects Fund Balance		(190.6)	
Governmental Fund Balance - Statutory Basis, June 30, 2012			**$ 3,858.6**
Plus: Expendable Trust and Similar Fund Statutory Balances that are considered Governmental Funds for GAAP reporting purposes			545.4
Less: Massachusetts Department of Transportation Funds			(1,270.2)
Adjusted Statutory Governmental Fund Balance			3,133.8
Short term accruals, net of allowances and deferrals for increases /(decreases):			
Taxes, net of refunds and abatements	$	1,893.2	
Tobacco Settlement Agreement receivable		126.8	
Medicaid		(247.1)	
Other short term accruals:			
Assessments and other receivables		216.4	
Amounts due to authorities and municipalities, net		(508.8)	
Amounts due to health care providers and insurers		(106.6)	
Workers' compensation and group insurance		(128.4)	
Other accruals, net		175.0	
Net increase to governmental fund balances		**1,420.5**	
Massachusetts School Building Authority fund balance		**1,764.7**	
Total changes to governmental funds			**3,185.2**
Governmental fund balance (fund perspective)			**$ 6,319.0**
Plus: Capital assets including infrastructure, net of accumulated depreciation			4,259.9
Deferred revenue, net of other eliminations			889.4
Long term accruals:			
Pension Benefits cumulative over / (under) funding			(1,418.9)
Post employment benefits other than pensions cumulative over / (under) funding			(3,446.0)
Environmental Remediation Liability			(240.8)
Massachusetts School Building Authority debt and school construction payables			(7,574.7)
Long term debt, unamortized premiums and deferred losses on debt refundings			(21,870.6)
Compensated Absences			(504.0)
Capital leases			(60.5)
Accrued interest on bonds			(363.6)
Other Long term liabilities			(287.0)
Total governmental net assets (entity wide perspective)			**$ (24,297.8)**

The deficit of $24.3 billion in governmental net assets is largely attributable to the Commonwealth's policy decision to finance the construction of assets owned by other government entities, particularly Commonwealth roads and bridges, which as a result of transportation reform completed during FY10 shifted these assets from the books of the Commonwealth to the Massachusetts Department of Transportation (MassDOT), a component unit of the Commonwealth. At the end of FY12, MassDOT held $22.1 billion in road, bridge and other transportation-related assets (excluding assets of the Massachusetts Bay

Transportation Authority) net of related depreciation, the vast majority of which were formerly held by the Commonwealth. Those assets were financed by the Commonwealth and the debt remains a long-term obligation of the Commonwealth. In addition, the Commonwealth has a net liability of $5.9 billion for debt and grant obligations for the School Building Assistance Program that finances construction of schools for the Commonwealth's cities and towns. Finally, the Commonwealth has financed significant transportation and non-transportation assets currently held by Massachusetts Institutions of Higher Education, Massachusetts' cities and towns, and quasi-public authorities. While the exact amount of Commonwealth-funded assets held by these entities is difficult to determine, between FY05 and FY12 the Commonwealth's capital spending on Higher Education capital projects exceeded $700 million, capital spending for transportation-related financial assistance to local governments totaled almost $1.4 billion and other grants and financial assistance for non-Commonwealth entities such as cities and towns and quasi-public authorities funded through the Commonwealth's capital budget exceeded $2.4 billion. As almost all of this capital spending was financed by Commonwealth debt, the liabilities are retained by the Commonwealth while the assets are held by the Institutions of Higher Education, Massachusetts cities and towns and entities such as local housing authorities and quasi-governmental authorities.

Since MassDOT ended FY12 with positive net assets of $23.7 billion, it is more informative to view the Commonwealth's financial statements in combination with MassDOT than to analyze the two separately, while also keeping in mind that significant assets owned by the Institutions of Higher Education and local governments and authorities were financed by liabilities still on the Commonwealth's books.

The net deficit in governmental activities grew by almost $1.5 billion in FY12. While tax revenue grew modestly in FY12, this growth was offset by other revenue declines and adjustments that reduced the fund balance and ending net assets. The main factors underlying the change in the net deficit were as follows:

- Tax revenues grew by $337 million, or 1.6%, from FY11, mainly due to higher sales, corporate and income taxes as the economy continued to recover from the recession, but total revenues declined by $146 million, as federal stimulus funding under the American Recovery and Reinvestment Act (ARRA) was phased out. At the same time, FY12 operating spending increased modestly;

- The phased-in recognition of declines in the asset value of the Commonwealth's pension fund due to stock market losses during the recession of 2008-2009 resulted in an increased accrual of $220 million due to growth in the underfunding of the Commonwealth's pension obligations;

- The Commonwealth funds its other post-employment benefits (OPEB) liability on a pay-as-you-go basis. GAAP requires the accrual of a liability for the difference between this amount and the actuarially required contribution. The change in the accrual was $755 million in FY12, reducing net assets;

- The Commonwealth continues to fund through its own debt, transportation-related assets that are owned by the Massachusetts Department of Transportation (MassDOT). In FY12, almost $800 million of MassDOT capital spending was funded through debt issued by the Commonwealth. In addition, the Commonwealth's FY12 capital spending included more than $250 million for Institutions of Higher Education, approximately $265 million in transportation-related and approximately $325 million in non-transportation-related capital grants and other financial assistance to local governments and non-governmental entities. While the assets created by this spending are recorded on the books of MassDOT and other non-Commonwealth entities, the liability for the debt remains with the Commonwealth;

- As a result of the large amount of Commonwealth debt that funded non-Commonwealth assets, total Commonwealth debt-related liabilities grew by $707 million (not including new debt issued by the Massachusetts School Building Authority (MSBA)), while governmental fixed assets net of depreciation grew by only $132 million.

The net deficit in government-wide activities, which includes the Commonwealth's business-type as well as governmental activities, increased by $908 million in FY12, as FY12 surpluses in the Unemployment Insurance and Higher Education programs offset deficits in governmental activities.

REPORTING ENTITY

The financial statements incorporate activity from over 150 departments. These departments include the various agencies, boards, and commissions, the 25 institutions of higher education, the judicial and legislative branches of government, and constitutional offices. The departments record their daily financial operations in the state accounting system, MMARS, operated by the Office of the Comptroller.

In addition, the financial statements include 15 independent public authorities. These entities are defined as component units and meet the criteria for inclusion in the Commonwealth's reporting entity in accordance with GAAP. They are further described in Note 1 to the basic financial statements. The MSBA is blended into the Commonwealth's operations.

INDEPENDENT AUDIT

The Commonwealth's independent auditors, KPMG LLP, have performed an independent audit of the Commonwealth for the fiscal year ended June 30, 2012. The independent auditors' report is presented in the Financial Section.

The Office of the Comptroller prepares these financial statements and is responsible for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the Office of the Comptroller, working in conjunction

with the State Auditor, has established a comprehensive internal control framework that is designed to protect the Commonwealth's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Commonwealth's financial statements in conformity with GAAP. Because of the cost, internal controls should not outweigh their benefits. The Commonwealth's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatement.

I would like to express my thanks to the many dedicated employees within the Office of the Comptroller. Continuing to carry out our mission and meet the goals that are set meant another successful year. I am proud to have them all on my team as another year of initiatives is now underway.

Respectfully submitted,

Martin J. Benison
Comptroller of the Commonwealth

Lavender Bud Hannahbells, Shy Brothers Farm, Westport, MA

Hannahbells are tiny artisanal cheeses hand made by the very shy Santos brothers from their third-generation dairy farm in Westport, Massachusetts. Some folks call them thimbles. The French call them “boutons de coulottes”, or “trouser buttons.” The brothers call them Hannahbells, after their mom!

CONSTITUTIONAL OFFICERS

Deval L. Patrick
Governor

Timothy P. Murray
Lieutenant Governor

William F. Galvin
Secretary of State

Martha Coakley
Attorney General

Steven Grossman
Treasurer and Receiver-General

Suzanne Bump
Auditor

LEGISLATIVE OFFICERS

Therese Murray
President of the Senate

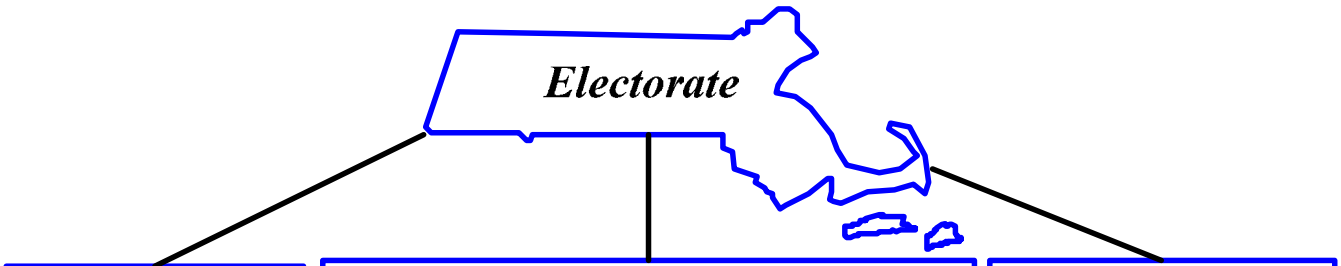
Robert A. DeLeo
Speaker of the House

JUDICIAL OFFICERS

Roderick L. Ireland
Chief Justice, Supreme Judicial Court

Phillip Rapoza
Chief Justice, Appeals Court

Lewis H. Spence
Court Administrator, Trial Court



Legislative Branch

House of Representatives
Senate

Executive Branch

Governor
Lieutenant Governor
Governor's Council
Attorney General
Inspector General
Office of the Comptroller
Sheriffs
State Auditor
Secretary of the Commonwealth
Treasurer and Receiver-General
Office of Campaign and Political Finance
Massachusetts Gaming Commission
District Attorneys
Ethics Commission
Disabled Person Protection Commission
Independent Offices and Commissions

Judicial Branch

Supreme Judicial Court
Appeals Court
Trial Court
Committee for Public Counsel
Board of Bar Examiners
Commission on Judicial Conduct
Mental Health Legal Advisors

State Agencies

Administration and Finance
Executive Office for Administration and Finance
Appellate Tax Board
Bureau of State Office Buildings
Civil Service Commission
Department of Revenue
Developmental Disabilities Council
Division of Administrative Law Appeals
Division of Capital Asset Management and Maintenance
George Fingold Library
Group Insurance Commission
Human Resource Division
Information Technology Division
Massachusetts Office on Disability
Massachusetts Teachers' Retirement System
Operational Services Division
Public Employee Retirement Administration Commission

Public Safety
Executive Office of Public Safety and Security
Chief Medical Examiner
Department of Criminal Justice Information Services
Department of Correction
Department of Fire Services
Department of Public Safety
Department of State Police
Massachusetts Emergency Management Agency
Military Division/ Massachusetts National Guard
Municipal Police Training Committee
Parole Board
Sex Offender Registry

Housing and Economic Development
Executive Office of Housing and Economic Development
Department of Business Development
Office of Consumer Affairs & Business Regulations
Massachusetts Marketing Partnership
Department of Housing & Community Development
Department of Telecommunications and Cable
Division of Banks
Division of Insurance
Division of Professional Licensure
Division of Standards

Energy and Environmental Affairs
Executive Office of Energy and Environmental Affairs
Department of Agricultural Resources
Department of Conservation and Recreation
Department of Environmental Protection
Department of Fish and Game
Department of Public Utilities
Division of Energy Resources
State Reclamation Board

Transportation and Public Works
Department of Transportation

Executive Office of Labor and Workforce Development

Health and Human Services
Executive Office of Health and Human Services
Executive Office of Elder Affairs
Department of Children and Families
Department of Developmental Services
Department of Mental Health
Department of Public Health
Department of Transitional Assistance
Department of Veterans' Services
Department of Youth Services
Division of Health Care Finance & Policy
Massachusetts Commission for the Blind
Massachusetts Commission for the Deaf and Hard of Hearing
Massachusetts Rehabilitation Commission
Office for Refugees and Immigrants
Soldiers' Home, Holyoke
Soldiers' Home, Massachusetts

Education
Executive Office of Education
Department of Early Education and Care
Department of Elementary and Secondary Education
Department of Higher Education
State Universities
Community Colleges
University of Massachusetts System

Health Care Security Trust

Board of Library Commissioners

Commission Against Discrimination

ADVISORY BOARD TO THE COMPTROLLER

Jay Gonzalez
Secretary for Administration and Finance

Suzanne Bump
Auditor

Steven Grossman
Treasurer and Receiver-General

Lewis H. Spence
Chief Administrator, Trial Court

Martha Coakley
Attorney General

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Commonwealth of Massachusetts

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Christopher P Morrill
President

Jeffrey R. Esser
Executive Director

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Financial Section

Independent Auditors' Report
Management's Discussion and Analysis
Basic Financial Statements Notes to the Basic Financial Statements
Required Supplementary Information Other Than Management's Discussion and Analysis
Other Supplementary Information

The Big E, the largest fair in the Northeast
West Springfield, Massachusetts

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KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

Mr. Martin Benison, Comptroller
The Commonwealth of Massachusetts
Boston, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts (the Commonwealth), as of and for the year ended June 30, 2012, which collectively comprise the Commonwealth's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of Massachusetts, the State Colleges and certain of the Community Colleges all of which are major enterprise funds and represent 87% of the total assets and deferred outflows of the business-type activities. We did not audit 63% of the total assets and deferred outflows of the Community Colleges major enterprise fund. We did not audit the financial statements of the Massachusetts Municipal Depository Trust which represent 5% of the total assets of the aggregate remaining fund information. Additionally, we did not audit the financial statements of certain nonmajor component units, which represent 6% of the total assets and deferred outflows of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of certain entities identified in Note 13 were not audited in accordance with *Government Auditing Standards.* An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2012, on our consideration of the Commonwealth of Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis and required supplementary information, as listed in the accompanying table of contents (collectively referred to as RSI), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The introductory section, other supplementary information and statistical section as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory section and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

December 19, 2012

Fireplace Feast, Salem Cross Inn, West Brookfield, MA

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Management's Discussion and Analysis
(Unaudited)

This analysis, prepared by the Office of the Comptroller, offers readers of the Commonwealth's financial statements a narrative overview of the activities of the Commonwealth for the fiscal year ended June 30, 2012 (FY12). We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, and with the Commonwealth's financial statements, which follow. This analysis is required by the Governmental Accounting Standards Board (GASB), which provides preparers with guidelines on what must be included in and excluded from this analysis.

Financial Highlights – Primary Commonwealth Government

Government–Wide Highlights

Net Assets – The liabilities of the primary government exceeded its assets at the end of FY12 by almost $19.386 billion, an increase of $908 million in the net deficit from FY11.

Of the $19.386 billion deficit amount, "unrestricted net assets" has a deficit of $23.936 billion, and there is an $849 million deficit attributable to the investment in capital assets net of related debt for governmental activities. There are three primary reasons for negative unrestricted net assets: first, the Commonwealth has a net liability of $5.870 billion for its share of the construction costs of schools owned and operated by municipalities through the Massachusetts School Building Authority (MSBA) and second, in FY10 the Commonwealth implemented transportation reform, which created the Massachusetts Department of Transportation (MassDOT) and transferred to that entity virtually all highway and bridge assets of the Commonwealth totaling approximately $15.521 billion, as of the date of the transfer, net of depreciation. The Commonwealth, however, originally paid for the construction of these assets and retains a large amount of transportation-related debt, which will now be unrelated to any capital asset owned by the Commonwealth. Third, a large portion of the Commonwealth's FY11 and FY12 capital spending was for transportation-related assets which are owned by MassDOT but the debt for which is retained by the Commonwealth, as well as for other capital assets not owned by the Commonwealth, particularly assets held by Higher Education, local governments and local housing authorities.

The Commonwealth also holds $3.034 billion in "restricted net assets", assets that are restricted primarily for payment of debt service and unemployment insurance benefits.

At the end of FY12, approximately $830 million in restricted net asset balances were set aside for unemployment benefits and an additional approximate $1.086 billion was restricted for debt retirement, of which $773 million is restricted for MSBA debt retirement.

The Commonwealth's governmental activities net deficit increased by $1.465 billion and its governmental activities unrestricted net deficit increased by approximately $1.274 billion in FY12. Tax revenue grew modestly in FY12, as did state spending, but accruals increased for underfunding related to pensions and retiree health care. In addition, as mentioned earlier, the Commonwealth continues to issue debt to fund capital spending where the assets are owned not by the Commonwealth,

one of its component units or local government entities, which results in growth in the Commonwealth's net deficit.

Total revenues of the primary government decreased by $1.550 billion or 2.9% in FY12 compared to FY11. Tax revenues increased modestly by $337 million, or 1.6%, primarily the result of growth in the sales, corporate and individual income taxes. Among non-tax revenue sources, primary government operating grants and reimbursements decreased by $2.282 billion, or 12.9%, in FY12, due to a $1.328 billion decrease in Medicaid reimbursements and a $937 million decrease in Unemployment Compensation as federal stimulus funding wound down and unemployment declined in the Commonwealth. Charges for services increased by $402 million, or 3.2%, as cities and towns continue to join the Commonwealth's health insurance program and the result of increased charges to beneficiaries under the state's group health insurance plan for current and retired state employees. Capital grants and contributions fell by $89 million, or 52.8%, due to lower grants for transportation projects, and other revenues increased by $83 million, or 4.9%.

Total expenses of the primary government decreased by $494 million, or approximately 0.9%, from FY11 to FY12, with the largest single decrease being approximately $922 million, or 21.0%, decline in unemployment insurance compensation expenses.

Net assets of business–type activities showed an increase of $557 million, due to net surpluses of $196 million in the Unemployment Insurance Trust Fund and $361 million for Higher Education activity.

Governmental Funds-Fund Balances. At June 30, 2012, the Commonwealth's governmental funds reported a combined ending fund balance of about $6.319 billion, an increase of $1.051 billion from June 30, 2011. Of the ending balances:

- $914,000 is nonspendable, $2.195 billion is restricted, $2.404 billion is committed, $575 million is assigned and $1.144 billion is unassigned fund balance. (A full discussion of these classifications is included in Note 1 to the basic financial statements.)

- The MSBA's fund balance of approximately $1.765 billion is blended into the Commonwealth. Within this fund balance is over $1.675 billion in cash and restricted investments which were funded by bond proceeds in FY12 and previous fiscal years, and other assets, less approximately $90 million in liabilities. In FY12, over $671 million was apportioned to the MSBA from the Commonwealth from sales taxes, adjusted for accruals, and the MSBA issued $1.142 billion in long-term debt.

- Lottery revenues for FY12 increased by 6.8% from FY11 at approximately $4.944 billion. Prizes were approximately $3.869 billion and operating expenses and mandated transfers to the governmental funds were $1.075 billion.

Other highlights of FY12 financial operations include:

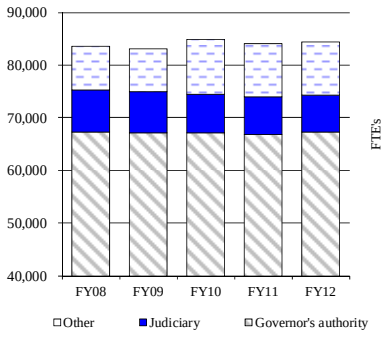
- Tobacco settlement proceeds for the year were approximately $242 million on a GAAP basis, all of which were used to support current operations, a decrease of $12 million from the prior year. Approximately $127 million has been reported as a receivable in the governmental funds related to half of the anticipated tobacco settlement proceeds to be received in FY13. The Master Settlement Agreement (MSA) with the tobacco manufacturers estimates Commonwealth revenues for the first 25 years of the settlement to be approximately $8.960 billion. However, this estimate is subject to future adjustments, including adjustments for inflation and changes in the volume of domestic cigarette sales. Approximately 68.5% of the estimated amounts shown in the MSA were received in FY12. The Commonwealth continued to receive Strategic Contribution Fund payments in FY12 under the terms of the MSA. These additional payments are paid to lead states in a suit against tobacco manufacturers. The payments began in FY08 and will continue through FY17. Beginning in FY13, 10.0% of tobacco settlement payments (approximately $25 million) will be deposited in the State Retiree Benefits Trust Fund (SRBT) to fund the Commonwealth's liability for retiree health care. The portion of the annual tobacco settlement payments dedicated to the SRBT will increase 10% per year until it reaches 100% in FY23.

- During the fiscal year, the Commonwealth passed or agreed to terms of approximately $200 million in bond authorizations, also approximately $27 million in de-authorizations of previously issued capital appropriations. The Commonwealth will determine the timing and extent of capital spending and bonding as part of its five-year capital plan.

Full-Time Equivalent Employment

Full Time Equivalent Workforce Including Higher Education and the Massachusetts Department of Transportation

June 2008 – June 2012



The chart to the left shows the Commonwealth's full-time equivalent employment for all state funding sources (budgetary, non-budgetary, capital, federal and trust) over the past five fiscal years. In FY12, the number of Commonwealth FTEs increased by approximately 400 compared to FY11. However, since FY08 the number of FTEs on the Commonwealth's payroll has dropped significantly after adjusting for shifts in the way certain FTEs are accounted for and for entities that were absorbed by the state in FY09 and FY10. In FY09, the state switched approximately 2,500 Higher Education employees to the Commonwealth's payroll system. In FY10, approximately 1,330 employees of the former Massachusetts Turnpike Authority and the Tobin Bridge were transferred to the Massachusetts Department of Transportation (MassDOT). Also in FY10, the sheriff departments of Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth and Suffolk were brought onto the state's accounting and payroll systems, with approximately 2,770 employees. These increases were offset by reductions in state employment due to a combination of employee attrition and layoffs, as the state responded to lower tax revenues caused by the recession. Adjusting for the 6,600 employees brought onto the

State payroll system as a result of these accounting changes and reorganizations, state employment levels dropped by a total of 5,800 FTEs between June 30, 2008 and June 30, 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the Commonwealth's basic financial statements. The Commonwealth's basic financial statements are made up of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of budgetary schedules, which are prepared on the statutory basis of accounting, as well as other supplementary information.

Government–wide Financial Statements

The government-wide financial statements present the reader with a broad overview of the Commonwealth's finances in a manner similar to a private sector business. The statements include the *Statement of Net Assets*, which presents the assets, liabilities and net assets for the government as a whole. Also presented is the *Statement of Activities*, which presents the functional expenses, offsetting revenues and changes in net assets of the Commonwealth. The statements report the Commonwealth's net asset position and changes to those net assets. An increase or decrease in the Commonwealth's net assets is one way to measure financial health as well as the trend of increases or decreases over time. But non-financial measures such as capital investments, changes in taxation, population, employment and economic conditions are also indicators of the overall health of any government.

Both the statement of net assets and the statement of activities have separate sections for three different categories of the Commonwealth's operations. These activities are Governmental Activities, Business-type Activities and Discretely Presented Component Units. Governmental activities are where the Commonwealth's basic services are reported. Business-type activities are where fees are charged for a particular service. Business-type activities are mainly the institutions of higher education and the unemployment insurance compensation system. The component units are separate legal entities that are included with this report due to the nature of their governance and financial relationship with the Commonwealth.

The government–wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements and Component Unit Financial Statements

Funds are groups of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Within the funds, budgetary compliance is demonstrated at the appropriation level for budgeted expenditures. Only the most significant major funds are shown separately in the fund financial statements, with the remaining funds included in the aggregate.

Fund financial statements focus on individual parts of the Commonwealth government, reporting its operations in more detail than the government–wide statements. All of the funds of the

Commonwealth can be divided into three categories: *Governmental Funds, Proprietary Funds and Fiduciary Funds*. It is important to realize that these fund categories use different bases of accounting and should be interpreted differently. Further discussion of the funds can be found in the section "Financial Analysis of the Commonwealth's Funds" and in Note 1 to the financial statements.

Component unit financial statements are presented for entities where the Commonwealth has financial accountability, but the entities are independent of the core Commonwealth operations. Most component units operate similar to private-sector businesses.

Even though the Massachusetts School Building Authority (MSBA) is a component unit, the MSBA's operations have been judged by management in a similar fashion to a Commonwealth department due to the MSBA's service to the Commonwealth. In FY05, legislation changed the funding of school construction from a direct appropriation of the Commonwealth to a dedicated portion of the sales tax allocated to the MSBA. Because of the nature of transactions between the Commonwealth and this authority, per GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the authority's operations are reported within a governmental fund in this report and on the government–wide financial statements. Therefore, its operations are reported as a "blended component unit", part of the governmental funds.

Notes to the Financial Statements, Required Supplementary Information and Other Supplementary Information

The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements as of the date provided in the government–wide and the fund financial statements. The notes to the financial statements can be found immediately following the component units' financial statements.

The required supplementary information section includes budgetary comparison schedules for the General Fund, along with a reconciliation comparing the original General Appropriation Act and supplemental appropriations to actual budgetary spending. A variance column is also provided. A further reconciliation schedule of the budgeted revenues and expenses to governmental fund perspective revenues and expenditures is also provided. A schedule of pension funding progress and the Commonwealth's pension contributions is also included in this section.

Other supplementary information is not required, but is included to present combining schedules of minor governmental funds.

GOVERNMENT–WIDE FINANCIAL ANALYSIS

Major Long – Term Obligations for Assets of Political Subdivisions (amounts in thousands)

Massachusetts School Building Authority net deficit……	$ 5,869,624
Outstanding bonds issued to fund the MBTA.	207
Debt related to MDOT assets……	9,632,405
Effect on unrestricted net assets of items unique to the Commonwealth.....	$ 15,502,236

Net assets may serve over time as a useful indicator of a government's financial position. The primary government's combined net assets (governmental and business-type activities) showed a net deficit of almost $19.386 billion at the end of FY12, a decrease in net assets of $908 million. Governmental activities unrestricted net assets are negative by over $24.905 billion. As explained previously, a substantial portion of this deficit is a result of programs where the Commonwealth decided to fund assets that are owned by political subdivisions of the Commonwealth, and in particular the result of the transfer of assets to MassDOT during FY10, as well as continued borrowing by the Commonwealth that funds, through its capital budget and debt issuance,

construction of new assets owned by MassDOT and by institutions of higher education, local governments and local authorities. In FY12, MassDOT reports these capital assets on their financial statements, which are incorporated into the Commonwealth's financial statements similarly to other component units.

The Commonwealth's FY12 capital spending included more than $250 million for Institutions of Higher Education and approximately $265 million and $325 million in transportation and non-transportation, respectively, related capital grants and other financial assistance to local governments and quasi-public entities. Between FY05 and FY12 the Commonwealth's capital spending on Higher Education capital projects exceeded $700 million, capital spending for transportation-related financial assistance to local governments totaled almost $1.4 billion and other grants and financial assistance for non-Commonwealth entities such as cities and towns and quasi-public authorities funded through the Commonwealth's capital budget exceeded $2.4 billion.

As alluded to previously, another reason that government-wide net assets are negative is that the Commonwealth funds school construction through debt issued by the MSBA, and includes the MSBA's debt on its balance sheet, but the assets paid for with that debt are owned by Massachusetts cities, towns and school districts.

Exclusive of fiduciary assets, the Commonwealth's government-wide current cash and investments increased by over $517 million between June 30, 2011 and June 30, 2012 and total current assets increased by $818 million. To finance its cash flow and bridge the time gap between current year receipts and current year major expenses such as the payment of local aid, in FY12 the Commonwealth issued $1.200 billion in revenue anticipation notes (RANS). The RANS were retired in April and May 2012.

The primary government's non-current assets increased by $1.040 billion. This increase was due mainly to an $847 million increase in capital assets, most of which occurred in the business-type activity funds, i.e., the Institutions of Higher Education and the Unemployment Insurance Trust Fund.

The Commonwealth holds nearly $9.136 billion in traditional capital assets such as land, construction in progress, buildings, infrastructure and equipment, net of accumulated depreciation. GASB requires the reporting of the value of investments in the Commonwealth's infrastructure, including roads, bridges, beaches, dams and other immovable assets on the face of the Commonwealth's financial statements. As these assets provide services to citizens, they are not available to finance future spending unless they are sold. Although the Commonwealth's investment in its capital assets is also reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

As explained above, the bulk of the Commonwealth's net deficit is due to long-term liabilities which financed non-Commonwealth capital assets. Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year, respectively. As of June 30, 2012, the Commonwealth's current assets were almost $11.210 billion, while its current liabilities were over $8.089 billion. Restricted net assets represent resources that are subject to external constraints.

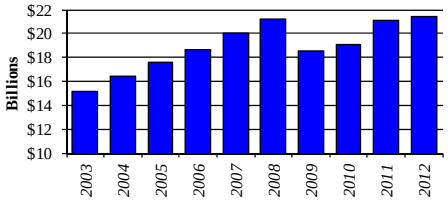
The tables below show the Commonwealth's net assets and the changes to those net assets for the fiscal year. In addition, net assets of higher education foundations have been included as part of the business–type activities.

Net Assets as of June 30, 2012 and 2011
(in thousands of dollars)

	Governmental Activities		Business - Type Activities		Total Primary Government	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Current assets	$ 9,468,600	$ 8,725,341	$ 1,740,922	$ 1,666,464	$ 11,209,522	$ 10,391,805
Non-capital non-current assets	3,437,342	3,482,538	2,783,206	2,824,112	6,220,548	6,306,650
Capital assets	4,259,869	4,127,414	4,876,356	4,161,373	9,136,225	8,288,787
Deferred outflows of derivative investments	564,287	375,870	110,092	19,510	674,379	395,380
Total assets and deferred outflows	17,730,098	16,711,163	9,510,576	8,671,459	27,240,674	25,382,622
Current liabilities	7,134,569	6,909,682	954,232	850,799	8,088,801	7,760,481
Long term liabilities	34,893,317	32,634,346	3,644,132	3,451,748	38,537,449	36,086,094
Total liabilities	42,027,886	39,544,028	4,598,364	4,302,547	46,626,250	43,846,575
Net assets:						
Invested in capital assets, net of related debt	(849,338)	(722,469)	2,366,038	2,026,223	1,516,700	1,303,754
Restricted	1,456,715	1,520,702	1,576,865	1,364,646	3,033,580	2,885,348
Unrestricted	(24,905,165)	(23,631,098)	969,309	978,043	(23,935,856)	(22,653,055)
Total net assets (deficits)	$ (24,297,788)	$ (22,832,865)	$ 4,912,212	$ 4,368,912	(19,385,576)	$ (18,463,953)

Changes in Net Assets

Revenue from Taxation
FY03-FY12



As noted earlier, the Commonwealth's total primary government net deficit increased by approximately $908 million between FY11 and FY12. In FY12, approximately 41.5% of the Commonwealth's total revenue came from taxes, while the remainder resulted from programmatic revenues, including charges for services and grants and contributions, the bulk of which is federal aid. Total revenues decreased by $1.550 billion or 2.9%, with tax revenue increasing by $337 million, or 1.6%, but federal revenues declining by 9.6%, due to the winding down of federal stimulus funding to the states. The increase in tax revenue was attributable to growth of $90 million in the personal income tax, sales tax revenue growth of $162 million and an increase of $109 million in corporate excise taxes.

Operating and capital grant contributions (including federal revenue for Medicaid and Unemployment Insurance) decreased by $2.372 billion, or 13.3% in FY12, as growth in the Medicaid expenditures declined, federal stimulus funding was phased out, and unemployment insurance benefit reimbursements from the federal government declined as the unemployment rate fell in the Commonwealth and the extended unemployment benefits program expired. On a statutory basis, American Recovery and Reinvestment Act (ARRA) funds received by the Commonwealth during FY12 were approximately

American Recovery and Reinvestment Act Funds Drawn in FY11 – FY12, Statutory Basis (amounts in thousands)

Funding Category	FY2012	FY2011
Agriculture	$ 2,608	$ 4,980
Department of defense	-	531
Housing and urban development	10,632	48,790
Justice	2,987	7,496
Labor	6,488	145,393
Transportation	74,768	167,051
US Treasury	9,945	58,802
National institute for arts & humanities	-	9
National science foundation	161	225
EPA	969	9,838
Energy	53,229	75,230
Education	201,010	533,090
Health and human services	123,435	1,308,647
Homeland security	-	685
Total by funding category	$ 486,232	$ 2,360,767
By Fund Type		
Budgeted funds	$ 22	$ 1,268,817
Non-budgeted special revenue funds*	395,978	808,544
Capital projects funds	456	1,370
Agency funds	-	3,204
Unemployment benefits	-	107,832
MassDOT	89,776	171,000
Total by fund type	$ 486,232	$ 2,360,767

* Resulted in expenditure reduction in the general fund

$486 million, $201 million for education programs, $75 million for transportation programs, approximately $123 million for health and human services programs and $53 million for energy programs. ARRA revenues in FY12 declined by approximately $1.875 billion from FY11. FY13 ARRA revenues are expected to decline to less than $200 million as the ARRA program continues to wind down.

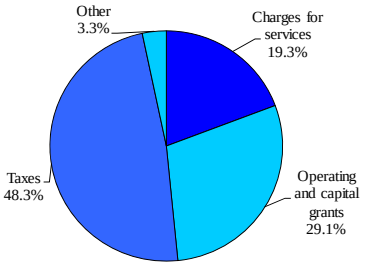
Total charges for services increased by approximately $402 million, or 3.2%, due to an increase of $310 million in Lottery charges, a $37 million increase in unemployment insurance charges, a $25 million increase in charges at community colleges. Charges for services also increased by $40 million in the Medicaid program and charges for group health insurance services rose by approximately $64 million. Government-wide restricted net assets increased by $148 million due to a $196 million increase in net assets restricted for unemployment compensation, and an increase of $93 million in restricted net assets for higher education institutions, offset a decrease of $141 million in net assets restricted for debt service.

Total primary government spending decreased by $494 million, or 0.9% from FY11, with Medicaid expenses declining by $416 million, or 3.4%, as certain FY11 one-time costs for universal health insurance were not repeated in FY12. Unemployment insurance compensation declined by $922 million, or 21.0%, as unemployment declined in the Commonwealth. Other significant changes occurred in health and human services, which grew by $519 million or 7.3%, the Lottery, which grew by $215 million, or 5.9%, education, which grew by $610 million, or 16.7%, direct local aid, which increased by $146 million, or 3.0% and other expenses, which decreased by $510 million or 4.0%.

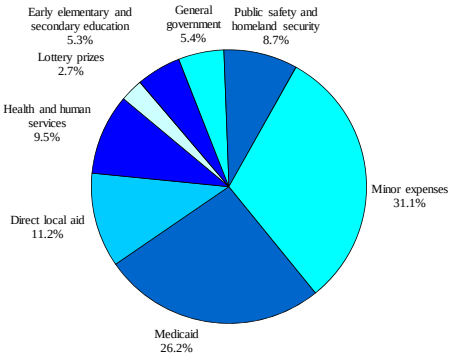
Changes in Net Assets during the Fiscal Years Ended June 30, 2012 and 2011 (in thousands of dollars except percentages)

	Governmental Activities		Business - Type Activities		Total Primary Government		Total Primary Government		
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012 Distribution	June 30, 2011 Distribution	'12 to '11 % Change
Revenues									
Program Revenues:									
Charges for services	$ 8,549,722	$ 8,038,003	$ 4,301,855	$ 4,411,606	$ 12,851,577	$ 12,449,609	24.9%	23.5%	3.2%
Operating grants and contributions	12,909,908	14,217,481	2,525,342	3,500,210	15,435,250	17,717,691	29.9%	33.4%	-12.9%
Capital grants and contributions	79,733	168,912	-	-	79,733	168,912	0.2%	0.3%	-52.8%
General Revenues:									
Taxes	21,403,426	21,066,430	-	-	21,403,426	21,066,430	41.5%	39.7%	1.6%
Other	1,393,094	991,231	376,327	695,308	1,769,421	1,686,539	3.5%	3.1%	4.9%
Total Revenues	44,335,883	44,482,057	7,203,524	8,607,124	51,539,407	53,089,181	100.0%	100.0%	-2.9%
Expenses									
Medicaid	11,708,397	12,124,261	-	-	11,708,397	12,124,261	22.3%	22.9%	-3.4%
Direct local aid	4,991,532	4,845,738	-	-	4,991,532	4,845,738	9.5%	9.2%	3.0%
Health and human services	7,643,950	7,124,856	-	-	7,643,950	7,124,856	14.6%	13.5%	7.3%
Lottery	3,877,305	3,661,834	-	-	3,877,305	3,661,834	7.4%	6.9%	5.9%
Higher education	-	-	4,336,195	4,472,351	4,336,195	4,472,351	8.3%	8.4%	-3.0%
Early elementary and secondary education	4,259,568	3,649,543	-	-	4,259,568	3,649,543	8.1%	6.9%	16.7%
Unemployment compensation	-	-	3,466,500	4,388,360	3,466,500	4,388,360	6.6%	8.3%	-21.0%
Other	12,164,099	12,674,442	-	-	12,164,099	12,674,442	23.2%	23.9%	-4.0%
Total Expenses	44,644,851	44,080,674	7,802,695	8,860,711	52,447,546	52,941,385	100.0%	100.0%	-0.9%
Excess/(Deficiency) before transfers	(308,968)	401,383	(599,171)	(253,587)	(908,139)	147,796			
Other losses	-	-	-	(10,746)	-	(10,746)			
Transfers	(1,155,955)	(860,904)	1,155,955	860,904	-	-			
Change in Net assets (deficits)	(1,464,923)	(459,521)	556,784	596,571	(908,139)	137,050			
Net assets - beginning, as restated	(22,832,865)	(22,373,344)	4,355,428	3,772,341	(18,477,437)	(18,601,003)			
Net assets (deficits)- ending	$ (24,297,788)	$ (22,832,865)	$ 4,912,212	$ 4,368,912	$ (19,385,576)	$ (18,463,953)			

Revenue–Governmental Activities
Fiscal Year Ending June 30, 2012

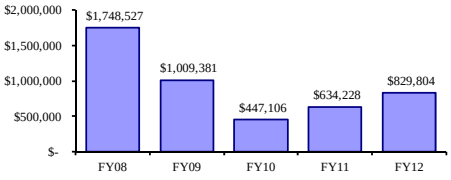


Major Expenses–Governmental Activities
Fiscal Year Ending June 30, 2012



Business–Type Activities

Unemployment Compensation Fund Net Assets
Fiscal Years 2008 - 2012
(*Amounts in Thousands)*



The largest category of tax revenue is income taxes. Of the more than $21.403 billion in tax revenue within governmental activities, $11.952 billion, or 55.8% of total taxes, was from income taxes, $5.087 billion, or 23.8% of total taxes, was from sales taxes, $2.029 billion, or 9.5% of total taxes, was from corporate taxes, $662 million was from motor fuels taxes and $1.673 billion was from other forms of taxation. The largest operating grants are federal Medicaid subsidies, which totaled $6.952 billion. The largest capital grants were for transportation, namely grants for highway construction. Finally, Lottery revenues made up approximately 57.8% of the Commonwealth's governmental charges for services. In FY12 Lottery revenues increased by 6.7% from FY11.

Medicaid expenses of $11.708 billion accounted for 26.2% of all the Commonwealth's governmental expenses, exclusive of business–type activities. However, half of Medicaid expenses have been historically reimbursed by the federal government. These subsidies are noted herein in the "operating grants and contributions" segment. The largest expense that is not subsidized by program revenues is direct local aid to the municipalities of the Commonwealth.

Other large expenditures for governmental activities included non-Medicaid health and human services costs of approximately $7.644 billion, pre-Kindergarten through secondary education costs of approximately $4.260 billion and public safety and homeland security costs of approximately $2.347 billion. State employees' pensions and other post-employment benefits, which are included in the department spending amounts above, were $1.775 billion.

Business–type activities are functions that equate to activities of a private enterprise. In the Commonwealth, the institutions of higher education are deemed to be business-type activities because of their lack of separate taxation. Also, unemployment compensation is considered to be a business–type activity.

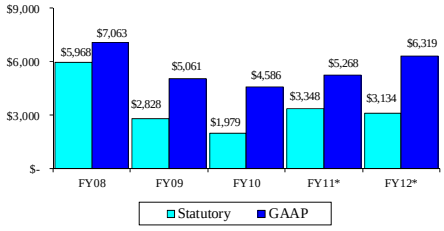
Business-type activities increased the Commonwealth's net assets by over $557 million. Operating grants and contributions dropped by $975 million, due almost entirely to reduced unemployment insurance reimbursements from the federal government as unemployment fell in the Commonwealth. Charges for services declined by $110 million, due largely to reduced sales and service revenue from the University of Massachusetts. As a result, total revenues of business-type activities dropped by $1.109 billion, but this decline was offset by a decline in unemployment insurance benefit spending, which dropped by $922 million as the economy recovered. As a result, net assets of the Unemployment Compensation Trust Fund increased by $196 million. Including an increase in transfers from the Commonwealth of $295 million, net assets of the schools of higher education increased by $361 million.

FINANCIAL ANALYSIS OF THE COMMONWEALTH'S FUNDS

As noted earlier, the Commonwealth uses fund accounting to demonstrate inter-period equity and the extent to which current resources are financing the full cost of services that citizens are receiving. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

Governmental Funds

Governmental Fund Balance Statutory vs. GAAP
(*Amounts in Millions)*



*Statutory basis excludes MassDOT

Governmental funds account for the near term inflows, outflows and balances of expendable resources of the Commonwealth's core functions and services. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. Due to the significant nature of the relationship between the Commonwealth and the MSBA, the MSBA's operations and results are presented as a major fund in the governmental funds, even though it is a legally separate authority. MSBA's activity in FY12 added $2.016 billion in revenues and other financing sources, including $1.142 billion of new bond issues, offset by approximately $1.344 billion due to expenditures to fund local school construction.

The Commonwealth develops its budgets on a statutory basis. A comprehensive process is conducted with all departments to convert the statutory basis reporting to generally accepted accounting principles. System-generated reports from the state accounting system and information warehouse are combined with reports from each of the Commonwealth departments to record governmental fund perspective departmental accruals. Similar reports are generated to show budgetary control, which is maintained at the appropriation level, not at the fund level.

The major items which account for almost all the difference between the statutory basis reporting and the governmental fund perspective are accruals for the Medicaid program, tax revenue, and claims and judgments.

Governmental Fund Operations - GAAP Basis - Fund Perspective
(Amounts in thousands)

	FY12	FY11	FY10	FY09	FY08
Beginning fund balances……....	$5,267,628	$4,585,715	$5,061,342	$7,062,663	$7,735,859
Revenues and other financing sources….....	54,370,101	53,898,404	49,853,115	49,787,963	50,136,830
Expenditures and other financing uses.....	53,318,771	53,216,491	50,328,742	51,789,284	50,810,026
Excess/(deficiency)….....	1,051,330	681,913	(475,627)	(2,001,321)	(673,196)
Ending fund balances.....	$6,318,958	$5,267,628	$4,585,715	$5,061,342	$7,062,663

Governmental fund tax revenues increased by $679 million, or 3.3%, primarily due to growth in income, sales and corporate taxes as the Massachusetts economy continued to recover from recession. Federal grants and reimbursements decreased by $1.392 billion, or 9.7%, due to a phasing out of federal stimulus funding. Assessments, fees and investment earnings combined increased by $946 million, or 10.2%, due primarily to an increase in revenues received by the Lottery and expendable trusts. Coupled with other financing sources,

largely from bonds and transfers, overall revenues increased by $471 million, or approximately 0.9%.

During FY12, governmental fund expenditures and other financing uses increased by $102 million, or 0.2%, with Medicaid expenditures decreasing by $416 million, or 3.4%. Debt service expenditures grew by $285 million, or 12.8%, primarily due to the fact that FY11 debt service expenditures were reduced by one-time savings that were not repeated in FY12. Lottery revenues were up $313 million from FY11, while Lottery expenditures rose by $311 million, as increased Lottery profits were distributed to the Commonwealth's General Fund. The other governmental funds as a whole increased in fund balance, largely due to the issuance of new debt by the MSBA, which had a surplus of $671 million.

The Federal Grants Fund is used to manage categorical grants funded in their entirety by the federal government. Between FY09 and FY11, this fund saw a significant increase in activity as a result of ARRA, with annual ARRA revenues in excess of $2 billion, but in FY12 ARRA revenues declined to less than $500 million and are expected to be below $200 million as the program winds down and expenditures and related federal revenues will return to historic levels in FY13 as the ARRA program winds down. (Also reported in this fund is almost $1.352 billion in food stamp benefit payments, which do not actually flow through the Commonwealth but are included in this report under governmental accounting rules.) Most other non-major funds had slight increases or decreases in fund balances for the fiscal year.

As of the end of FY12, the Commonwealth's governmental funds reported combined ending fund balances of $6.319 billion, an increase of $1.051 billion from the previous year. Of the $6.319 billion balance, the following amounts are classified as nonspendable, restricted, and unrestricted under GASB 54 definitions.

Governmental Funds - Fund Balance Classification
(Amounts in thousands)

	2012	2011	Change	Percentage Change
Nonspendable/Restricted:				
Nonspendable	$ 914	$ 914	$ -	0.0%
Restricted	2,195,287	1,675,055	520,232	31.1%
Total Nonspendable/Restricted	**2,196,201**	1,675,969	**520,232**	**31.0%**
Unrestricted				
Committed	2,404,158	2,020,009	384,149	19.0%
Assigned	574,621	750,462	(175,841)	-23.4%
Unassigned	1,143,978	821,188	322,790	39.3%
Total Unrestricted	**4,122,757**	**3,591,659**	**531,098**	**14.8%**
Total fund balances	**$ 6,318,958**	**$ 5,267,628**	**$ 1,051,330**	**20.0%**

Nonspendable amounts represent loans receivable. Restricted fund balances represent amounts restricted for Commonwealth and MSBA debt service or restricted by bond covenants, funds that are restricted in capital projects and special revenue funds, balances in the federal grants funds and most of the balances held in expendable trusts. Unrestricted amounts include fund balances classified as committed, including those generated by revenue sources directed to specific purposes but with a lower level of constraints on their use than restricted balances, as well as fund balances in the Stabilization Fund. Unrestricted amounts also included prior appropriations continued, which are classified as assigned, and residual balances in the General Fund, which are classified as unassigned. A full discussion of the Commonwealth's fund balance classification policy under GASB 54 can be found in Note 1 to the basic financial statements.

During FY12 the General Fund was the primary operating fund of the Commonwealth. At the end of FY12, the fund balance of the General Fund was $3.347 billion. Of this amount, $1.652 billion represents the balance in the Commonwealth's Stabilization Fund. $163 million was also assigned for continuing appropriations from FY11 into FY12, a significant decline from FY11's continuing appropriations of $371 million in the General Fund.

Presented in the governmental funds are the balances and results of operations from the MSBA. In FY12, the MSBA received approximately $671 million of dedicated sales tax revenues.

Proprietary Funds

Proprietary Funds report activities of the Commonwealth that are structured similar to for-profit businesses. Proprietary fund financial statements provide the same type of information as the government–wide financial statements, only in greater detail.

As discussed above, the business-type activities increased the Commonwealth's net assets by approximately $557 million.

BUDGETARY HIGHLIGHTS

The FY12 General Appropriation Act (GAA) authorized approximately $30.044 billion in spending, exclusive of approximately $1.478 billion in required pension contributions and $381 million in FY11 spending authorized to be continued into FY12 as part of FY11 end of year supplemental budgets.

The FY12 budget as enacted by the Legislature was based on a FY12 consensus tax revenue estimate of $20.525 billion, of which approximately $17.57 billion represented taxes available for budget after adjusting for $2.956 billion in tax revenue allocated to the Massachusetts Bay Transportation Authority ($780 million), the School Modernization And Reconstruction Trust Fund ($678 million), the Pension Reserves Investment Trust Fund ($1.478 billion) and $20 million to the Workforce Training Fund, which was converted from a budgetary to non-budgetary fund effective July 1, 2011. FY12 revenues available for budget were further adjusted to $17.682 billion as a result of several tax law changes that were part of FY12 budget. The FY12 tax revenue estimate was revised upward to $21.010 billion in October

2012 as tax revenues had performed above benchmark in the first quarter of FY12.

Approximately $484 million in supplemental appropriations were authorized during FY12 prior to June 30, 2012. Subsequent to year end, an additional supplemental budget was enacted totaling approximately $47 million in new FY12 appropriations, all of which were continued to FY13 and reappropriated. The year's significant supplemental appropriation activity included approximately:

- $187 million for the Delivery System Transformation Initiative, which will provide funding to safety net hospitals carrying out delivery-of-care transformation initiatives;
- $40 million for family shelters;
- $35 million for MassHealth (Medicaid) senior care;
- $30 million for information technology consolidation in the executive branch;
- $27 million for additional private counsel compensation for indigent clients;
- $27 million for short term housing transitional programs;
- $25 million to pay for the cleanup costs of Hurricane Irene and the October 2011 snow storm;
- $21 million for home heating assistance;
- $11 million for MassHealth fee for service programs;
- $11 million for providing Supplemental Security Income.

On a statutory (not GAAP) basis, budgeted revenues and other financing sources (before transfers between the budgeted funds, which are included in both spending and revenue, and thus have no effect on fund balances) declined by $529 million, or 1.6%, in FY12. While tax revenue grew by $549 million, or 2.9%, as a result of continuing growth in the economy, federal reimbursements declined by $1.328 billion, or 14.3%, as the American Recovery and Reinvestment Act wound down and budgeted revenues under that program dropped by more than $1.269 billion. Interfund transfers from non-budgeted funds increased by $241 million, or 13.6%, due primarily to transfers of increased Lottery profits to the General Fund.

Budgeted expenditures and other financing uses, including transfers to non-budgeted funds (but before transfers between the budgeted funds) increased by $380 million, or 1.2%, from FY11, much slower growth than in recent years, as health care spending, which is one of the most important drivers of the Commonwealth budget, slowed.

Spending on programs and services grew by $644 million, or 2.4%. Medicaid expenditures grew by $194 million, or only 1.9%, from $10.237 billion in FY11 to $10.431 billion in FY12, the slowest percentage growth since FY97, as the Commonwealth implemented savings initiatives, including reduced rates for providers, reprocurement of services for behavioral health services, revised capitation rates for

contracted managed care organizations, a change in hospital readmissions payment policies, increased co-payments slightly and enhanced program integrity measures to ensure that members are eligible for services and using them in proper settings. (Budgetary Fund Medicaid expenditures exclude spending in the Universal Health Care Funds which fell in FY12, and are included in the Governmental Fund analysis.)

Debt service grew by $259 million, or 15.6%, as FY11 savings from a debt restructuring were not repeated in FY12. Interfund transfers to non-budgeted funds (primarily the Universal Health Care funds) fell by $577 million or 28.0%, as FY11 one-time universal healthcare-related expenditures were not repeated in FY12. Post-employment benefits grew by $53 million, or 2.9%, with pension contributions growing by 2.5% from FY11 and state employee and retiree health insurance costs increasing by 3.8%. Spending for direct local aid (both education aid and unrestricted aid), at $4.929 billion, was up $145 million, or 3.0%, from FY11.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital assets of the Commonwealth include land, buildings, improvements, equipment, vehicles and infrastructure. The Commonwealth's investment in capital assets for its governmental and business-type activities as of June 30, 2012 amounts to approximately $16.122 billion, with accumulated depreciation of approximately $6.986 billion, leaving a net book value of more than $9.136 billion. Infrastructure includes assets that are normally immovable and of value only to the Commonwealth, such as roads, bridges, beaches, piers and dams. The investments in capital assets noted above are net of capital assets transferred to MassDOT as part of the Commonwealth's Transportation Reform, which occurred in FY10. The total increase in the Commonwealth's investment in capital assets from 2011 to 2012 was approximately $847 million, with more than $132 million in governmental activities and almost $715 million in business-type activities. Virtually all of the increase was in construction in process.

The following table details the capital asset activity for the Commonwealth. Similar to previous charts, FY12 amounts for business-type activities include amounts for the foundations established on behalf of the institutions of higher education.

Capital Assets at Year - End
(net of depreciation)
(amounts in thousands)

	Governmental Activities		Business - Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land, including central artery	$ 801,836	$ 766,834	$ 117,192	$ 117,138	$ 919,028	$ 883,972
Historical treasures	-	-	878	863	878	863
Construction in process	533,963	737,232	1,172,513	709,843	1,706,476	1,447,075
Buildings	2,556,024	2,261,394	3,230,743	2,953,685	5,786,767	5,215,079
Machinery and equipment	279,007	294,961	253,171	269,119	532,178	564,080
Infrastructure, excluding central artery	89,039	66,993	-	-	89,039	66,993
Library collections	-	-	101,859	110,725	101,859	110,725
Total	**$ 4,259,869**	**$ 4,127,414**	**$ 4,876,356**	**$ 4,161,373**	**$ 9,136,225**	**$ 8,288,787**

Additional detail on the Commonwealth's FY12 capital asset activity can be found in Note 5 to the basic financial statements ("Capital Assets").

Debt Administration

The Commonwealth issues short-term and long-term debt. Debt that is general obligation in nature is backed by the full faith and credit of the Commonwealth and paid from governmental funds. Additionally, short-term notes are issued and redeemed annually.

To fund the FY12 capital budget, the Commonwealth borrowed by issuing $1.728 billion in long-term bonds for new capital spending needs, $1.340 billion of which was general obligation debt and $419 million was special obligation debt secured by motor fuels taxes and motor vehicle license and registration fees. In addition, the Commonwealth issued $388 million in debt to refund already existing debt, taking advantage of continued low interest rates.

Approximately 19.1% percent of the Commonwealth's $18.851 billion in general obligation debt outstanding as of June 30, 2012 has been issued as variable rate bonds. Included in this variable rate debt was approximately $402 million in auction rate securities (about 2.1% of all general obligation debt) as of June 30, 2012.

Approximately $1.340 billion in bond sales were either for general government purposes or unallocated as of year-end and assumed to be for general purposes, including for construction and equipment purchases. The remaining $419 million in new issues were for highway and other infrastructure construction.

The table below details the Commonwealth's debt by type for the fiscal year compared to the prior fiscal year, excluding premiums and discounts.

Additional detail on the Commonwealth's short-term debt can be found in Note 6 ("Short-Term Financing and Credit Arrangements") and Note 7 ("Long-Term Obligations") to the basic financial statements.

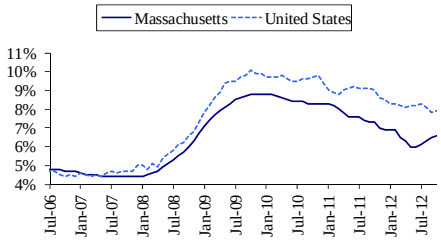
Long - Term Debt Obligations at Year - End

(net of unamortized premiums, bond issuance costs, deferred losses on refundings and discounts)
(Amounts in thousands)

	Governmental Activities		Business - Type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	$ 18,851,538	$ 18,516,760	$ -	$ -	$ 18,851,538	$ 18,516,760
Special obligation bonds (excluding GANs)	1,971,630	1,691,505	-	-	1,971,630	1,691,505
Revenue obligation bonds	-	-	3,370,389	3,277,413	3,370,389	3,277,413
Grant anticipation notes	610,385	666,790	-	-	610,385	666,790
Subtotal	21,433,553	20,875,055	3,370,389	3,277,413	24,803,942	24,152,468
Massachusetts School Building Authority	5,443,265	4,395,390	-	-	5,443,265	4,395,390
Total	**$ 26,876,818**	**$ 25,270,445**	**$ 3,370,389**	**$ 3,277,413**	**$ 30,247,207**	**$ 28,547,858**

ECONOMIC FACTORS AFFECTING NEXT YEAR'S BUDGET

Unemployment Rate
July 2006 – October 2012



The Commonwealth, with an international reputation for medical, cultural, historical and educational institutions remains the economic and educational hub of New England. The Commonwealth's economy remains diversified, but its strongest component is its knowledge–based technology and service industries and consequently relies heavily on a highly educated workforce. The Commonwealth is home to sixteen S&P 500 companies, among them eight Fortune 500 headquarters.

In December 2007, the nation entered into a recession caused by the downturn in the housing markets that worsened due to the global capital markets crisis that occurred starting in September 2008. Rates of economic decline were sharp during the recession as the nation's gross domestic product has fallen and unemployment hit the highest levels in decades, and, while the national recession ended in June 2009, recovery has been slow. Although the Dow Jones Industrial Average has risen from a low of 6,547 in March of 2009 to over 13,000 by December 2012, it is still well below the 14,200 historical high of two years ago. Most economists believe unemployment will remain relatively high in the near future.

Massachusetts' economy has outperformed the nation's economy as a whole during and following the most recent recession. Home prices fell in Massachusetts by approximately 18% compared at their lowest point during the recession, compared to 34% nationally. The unemployment rate for the Commonwealth rose from 5.2% in July of 2008 to a high of 9.5% in February 2011, but since then has declined, to a low of 6.0% in June 2012, though it has since risen to 6.6% as of October 2012. This decline in unemployment is greater than in the nation as a whole, where unemployment rose from 5.8% in July 2008 to a high of 10.1% in October 2009 (a rate that had not been seen since 1983), and has declined by only 2.2%, to 7.9% as of October 2012.

At the time of its enactment, the Commonwealth's FY13 statutory-based budget assumed estimated revenues of $33.575 billion (net of tax revenues dedicated to funding the Massachusetts Bay Transit Authority and Massachusetts School Building Authority), an increase of $1.261 billion, or 3.9% from FY12, and expenditures of $34.083 billion, an increase of 1.644 billion, or 5.1% from FY12. Tax revenues were projected to total $20.500 billion, representing growth of $852 million, or 4.3% from FY12. Based on below-forecast tax revenue collections through November 2012, the Secretary for Administration and Finance reduced the FY13 tax revenue by $540 million, and in order to maintain a balanced budget, proposed increased withdrawals from the Commonwealth's Stabilization Fund, (which require legislative approval) and implemented savings measures across state government.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Commonwealth's finances and accountability for all of the Commonwealth's citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed via email to comptroller.info@state.ma.us or mail to: Commonwealth of Massachusetts, Office of the State Comptroller, 1 Ashburton Place, 9th Floor, Boston, Massachusetts, 02108. You may also download this report at: http://www.mass.gov/osc/reports/reports.htm.

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Basic Financial Statements

Government-wide Financial Statements
Statement of Net Assets
Statement of Activities

Clambake at Town Beach, Sandwich
Credit: William DeSousa-Mauk

Statement of Net Assets

June 30, 2012

(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Government Wide Total	Component Units
ASSETS AND DEFERRED OUTFLOWS				
Current assets:				
Cash, cash equivalents and short-term investments	$ 4,166,786	$ 958,050	$ 5,124,836	$ 2,327,892
Cash with fiscal agent	304,202	-	304,202	-
Assets held in trust	-	-	-	118,301
Receivables, net of allowance for uncollectibles:				
Taxes	2,789,504	-	2,789,504	-
Federal grants and reimbursements receivable	1,824,894	87,822	1,912,716	118,053
Loans	7,378	44,237	51,615	300,832
Other receivables	326,393	603,224	929,617	207,469
Due from cities and towns	13,680	-	13,680	-
Due from component units	438	-	438	-
Due from primary government	-	-	-	513,172
Due from affiliates	-	6,545	6,545	-
Other current assets	35,325	41,044	76,369	107,006
Total current assets	**9,468,600**	**1,740,922**	**11,209,522**	**3,692,725**
Noncurrent assets:				
Cash and cash equivalents - restricted	-	875,937	875,937	1,024,312
Investments, restricted investments and annuity contracts	2,418,459	1,301,178	3,719,637	1,625,901
Accounts receivable, net	889,417	57,474	946,891	4,768
Loans receivable, net	114,793	12,630	127,423	4,193,296
Due from component units	14,673	-	14,673	-
Non-depreciable capital assets	1,335,799	1,290,583	2,626,382	5,247,547
Depreciable capital assets, net	2,924,070	3,585,773	6,509,843	26,516,581
Other noncurrent assets	-	44,674	44,674	136,910
Other noncurrent assets - restricted	-	491,313	491,313	-
Total noncurrent assets	**7,697,211**	**7,659,562**	**15,356,773**	**38,749,315**
Deferred outflows of derivative investments	564,287	110,092	674,379	384,463
Total assets and deferred outflows	**17,730,098**	**9,510,576**	**27,240,674**	**42,826,503**
LIABILITIES				
Current liabilities:				
Accounts payable and other liabilities	2,726,202	373,890	3,100,092	725,293
Accrued payroll	157,941	164,908	322,849	477
Compensated absences	327,581	131,373	458,954	26,461
Accrued interest payable	363,637	20,572	384,209	228,389
Tax refunds and abatements payable	846,797	36,310	883,107	-
Due to component units	475,266	-	475,266	-
Due to primary government	-	-	-	438
Due to federal government	25,354	-	25,354	-
Deferred revenue	-	27,480	27,480	231,497
Deposits and unearned revenue	-	73,153	73,153	-
Due to affiliates	-	18,523	18,523	-
School construction grants payable	410,736	-	410,736	-
Capital leases	10,248	6,950	17,198	24,407
Massachusetts School Building Authority bonds and unamortized premiums	126,800	-	126,800	-
Unamortized deferred loss on refunding	(6,585)	-	(6,585)	-
Bonds payable and unamortized premiums	1,662,312	101,073	1,763,385	788,473
Environmental remediation liability	8,280	-	8,280	-
Total current liabilities	**7,134,569**	**954,232**	**8,088,801**	**2,025,435**

Statement of Net Assets

June 30, 2012

(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Government Wide Total	Component Units
Noncurrent liabilities:				
Compensated absences	176,393	61,258	237,651	22,327
Accrued interest payable	-	-	-	165,184
Due to primary government	-	-	-	14,673
Due to federal government - grants	-	12,631	12,631	-
Claims and judgments	40,000	-	40,000	-
Deferred revenue	-	101,606	101,606	32,627
Prizes payable	1,385,875	-	1,385,875	-
Capital leases	50,209	16,377	66,586	124,760
Bonds payable and unamortized premiums	20,245,371	3,269,316	23,514,687	11,543,983
Unamortized deferred loss on refunding	(30,449)	-	(30,449)	-
Massachusetts School Building Authority bonds and unamortized premiums	5,593,135	-	5,593,135	-
School construction grants payable	1,482,910	-	1,482,910	-
Retirement system net pension obligations	1,418,894	-	1,418,894	-
Post - employment benefits obligations	3,446,000	-	3,446,000	587,072
Environmental remediation liability	232,481	1,470	233,951	-
Liability for derivative instruments	564,287	108,215	672,502	638,380
Other noncurrent liabilities	288,211	73,259	361,470	319,610
Total noncurrent liabilities	**34,893,317**	**3,644,132**	**38,537,449**	**13,448,616**
Total liabilities	**42,027,886**	**4,598,364**	**46,626,250**	**15,474,051**
NET ASSETS				
Invested in capital assets, net of related debt	(849,338)	2,366,038	1,516,700	24,611,314
Restricted for:				
Unemployment benefits	-	829,804	829,804	-
Retirement of indebtedness	1,085,808	-	1,085,808	-
Other purposes	370,907	747,061	1,117,968	2,992,278
Unrestricted (deficits)	(24,905,165)	969,309	(23,935,856)	(251,140)
Total net assets (deficits)	**$ (24,297,788)**	**$ 4,912,212**	**$ (19,385,576)**	**$ 27,352,452**

The notes to the financial statements are an integral part of this statement. *(concluded)*

Statement of Activities

Fiscal Year Ended June 30, 2012

(Amounts in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units
Primary government:								
Governmental Activities:								
General government	$ 2,391,694	$ 458,320	$ 794,579	$ -	$ (1,138,795)	$ -	$ (1,138,795)	$ -
Judiciary	945,457	114,170	1,370	-	(829,917)	-	(829,917)	-
Direct local aid	4,991,532	-	-	-	(4,991,532)	-	(4,991,532)	-
Medicaid	11,708,397	297,566	6,951,770	2,241	(4,456,820)	-	(4,456,820)	-
Group health insurance	1,218,079	495,377	-	-	(722,702)	-	(722,702)	-
Energy and environmental affairs	572,632	214,340	102,554	-	(255,738)	-	(255,738)	-
Housing and economic development	1,247,310	142,320	557,227	-	(547,763)	-	(547,763)	-
Health and human services	7,643,950	931,535	2,737,777	8,718	(3,965,920)	-	(3,965,920)	-
Transportation and public works	1,765,101	505,842	7,783	68,773	(1,182,703)	-	(1,182,703)	-
Early elementary and secondary education	4,259,568	6,783	1,313,896	-	(2,938,889)	-	(2,938,889)	-
Public safety and homeland security	2,346,958	205,546	251,598	-	(1,889,814)	-	(1,889,814)	-
Labor and workforce development	474,096	237,772	191,354	-	(44,970)	-	(44,970)	-
Lottery	3,877,305	4,940,151	-	-	1,062,846	-	1,062,846	-
Interest (unallocated)	1,202,772	-	-	-	(1,202,772)	-	(1,202,772)	-
Total governmental activities	**44,644,851**	**8,549,722**	**12,909,908**	**79,733**	**(23,105,488)**	**-**	**(23,105,488)**	**-**
Business-Type Activities:								
Unemployment Compensation	3,466,500	1,982,602	1,679,474	-		195,576	195,576	-
Higher Education:								
University of Massachusetts	2,684,039	1,519,496	542,886	-		(621,657)	(621,657)	-
State Universities	851,118	523,979	66,258	-		(260,881)	(260,881)	-
Community Colleges	801,038	275,778	236,724	-		(288,536)	(288,536)	-
Total business-type activities	**7,802,695**	**4,301,855**	**2,525,342**	**-**	**-**	**(975,498)**	**(975,498)**	**-**
Total primary government	**$ 52,447,546**	**$ 12,851,577**	**$ 15,435,250**	**$ 79,733**	**(23,105,488)**	**(975,498)**	**(24,080,986)**	**-**
Component Units:								
Massachusetts Department of Transportation	$ 4,831,766	$ 1,150,539	$ 507,146	$ 1,899,994				(1,274,087)
Commonwealth Health Insurance Connector	850,646	848,607	3,181	-				1,142
Massachusetts Water Pollution Abatement Trust	233,452	221,384	36,700	83,077				107,709
Other nonmajor component units	402,359	286,582	98,208	5,865				(11,704)
Total component units	**$ 6,318,223**	**$ 2,507,112**	**$ 645,235**	**$ 1,988,936**	**-**	**-**	**-**	**(1,176,940)**

(continued)

General revenues:	Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units
Taxes:				
Income	11,952,019	-	11,952,019	-
Sales taxes	5,086,908	-	5,086,908	779,092
Corporate taxes	2,028,624	-	2,028,624	-
Motor and special fuel taxes	662,932	-	662,932	-
Other taxes	1,672,943	-	1,672,943	312,125
Miscellaneous:				
Investment earnings	40,422	36,112	76,534	49,756
Tobacco settlement	242,515	-	242,515	-
Contribution from municipalities	55,905	-	55,905	-
Other revenue	1,054,252	340,215	1,394,467	33,642
Other losses	-	-	-	(3,640)
Transfers	(1,155,955)	1,155,955	-	-
Total general revenues and transfers	**21,640,565**	**1,532,282**	**23,172,847**	**1,170,975**
Change in net assets	**(1,464,923)**	**556,784**	**(908,139)**	**(5,965)**
Net assets (deficits) - beginning, as restated	(22,832,865)	4,355,428	(18,477,437)	27,358,417
Net assets (deficits) - ending	**$ (24,297,788)**	**$ 4,912,212**	**$ (19,385,576)**	**$ 27,352,452**

The notes to the financial statements are an integral part of this statement.

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Governmental Fund Financial Statements

Chocolate Dipped Strawberries, Richardson's Candy Kitchen, Deerfield, MA
Credit: Paul Franz

These luscious strawberries are waiting for hungry visitors to select them, among other chocolates and candies, at Richardson's Candy Kitchen.

Balance Sheet
Governmental Funds
June 30, 2012
(Amounts in thousands)

	General	Lotteries	Massachusetts School Building Authority	Federal Grants	Other Governmental Funds	Total
ASSETS						
Cash, cash equivalents and short-term investments	$ 1,803,109	$ 53,896	$ 902,130	$ -	$ 1,407,651	$ 4,166,786
Cash with fiscal agent	-	-	-	-	304,202	304,202
Investments and restricted investments	260,058	-	772,526	-	-	1,032,584
Receivables, net of allowance for uncollectibles:						
Taxes	3,343,667	-	49,724	-	166,420	3,559,811
Due from federal government	1,333,817	-	-	435,823	123,807	1,893,447
Loan receivable	-	-	121,257	-	914	122,171
Other receivables	122,353	5,833	9,449	-	235,903	373,538
Due from cities and towns	13,680	-	-	-	-	13,680
Due from other funds	111,933	-	-	-	92,742	204,675
Due from component units	438	-	-	-	-	438
Total assets	**$ 6,989,055**	**$ 59,729**	**$ 1,855,086**	**$ 435,823**	**$ 2,331,639**	**$ 11,671,332**
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 1,719,078	$ 52,970	$ 51,309	$ 325,315	$ 470,952	$ 2,619,624
Accrued payroll	141,713	-	-	9,209	7,019	157,941
Tax refunds and abatements payable	846,229	-	238	-	330	846,797
Due to other funds	-	-	-	17,586	174,938	192,524
Due to component units	44,904	-	-	-	430,362	475,266
Due to federal government	25,354	-	-	-	-	25,354
Deferred revenue	864,432	4,337	-	-	20,648	889,417
School construction grants payable	-	-	38,873	-	-	38,873
Other accrued liabilities	-	-	-	-	106,578	106,578
Total liabilities	**3,641,710**	**57,307**	**90,420**	**352,110**	**1,210,827**	**5,352,374**
Fund balances (deficits):						
Nonspendable	-	-	-	-	914	914
Restricted	-	-	1,355,353	83,713	756,221	2,195,287
Committed	1,652,118	-	-	-	752,040	2,404,158
Assigned	162,886	2,422	409,313	-	-	574,621
Unassigned	1,532,341	-	-	-	(388,363)	1,143,978
Fund balances (deficits)	**3,347,345**	**2,422**	**1,764,666**	**83,713**	**1,120,812**	**6,318,958**
Total liabilities and fund balances	**$ 6,989,055**	**$ 59,729**	**$ 1,855,086**	**$ 435,823**	**$ 2,331,639**	**$ 11,671,332**

The notes to the financial statements are an integral part of this statement.

Reconciliation of Governmental Fund Balances to the Statement of Net Assets

June 30, 2012
(Amounts in thousands)

Total fund balances - governmental funds		**$ 6,318,958**
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Capital assets not being depreciated	$ 1,335,799	
Capital assets being depreciated, net	2,924,070	
Capital assets, net of accumulated depreciation		4,259,869
Amounts presented in the statement of net assets, but not in fund balances due to differences in revenue recognition under different basis of accounting		889,417
Massachusetts School Building Authority assets		38,737
Lottery annuity contracts		1,385,875
Due from component units		14,673
Elimination of due from / due to activity between state departments within primary government and business-type activities		(12,151)
Certain liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. These liabilities include:		
Pension over / (under) funding State Retirement Systems net pension obligation	(1,418,894)	
Net post - employment benefits obligations	(3,446,000)	
Commonwealth bonded debt	(21,433,553)	
Unamortized bond premiums	(474,130)	
Unamortized deferred loss on refunding	37,034	
Accrued interest on bonds	(363,637)	
Massachusetts School Building Authority bonded debt	(5,719,935)	
Massachusetts School Building Authority grants to municipalities	(1,854,773)	
Lottery prizes payable	(1,385,875)	
Capital leases	(60,457)	
Environmental remediation liability	(240,761)	
Claims and judgments	(40,000)	
Employee benefits, including compensated absences, health insurance benefits and other compensation claims	(792,185)	
Long - term liabilities (including current portions)		(37,193,166)
Total net assets (deficits) - governmental activities		**$ (24,297,788)**

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Fiscal Year Ended June 30, 2012

(Amounts in thousands)

	General	Lotteries	Massachusetts School Building Authority	Federal Grants	Other Governmental Funds	Total
REVENUES						
Taxes	$ 18,772,659	$ 759	$ 670,693	$ -	$ 2,089,105	$ 21,533,216
Assessments	429,266	-	-	-	594,637	1,023,903
Federal grants and reimbursements	7,987,250	-	-	4,051,218	947,037	12,985,505
Departmental	1,951,285	4,942,137	-	-	1,068,909	7,962,331
Miscellaneous	291,276	1,376	103,794	-	881,338	1,277,784
Total revenues	**29,431,736**	**4,944,272**	**774,487**	**4,051,218**	**5,581,026**	**44,782,739**
EXPENDITURES						
Current:						
Legislature	58,337	-	-	-	-	58,337
Judiciary	754,834	-	-	1,147	630	756,611
Inspector General	2,818	-	-	-	335	3,153
Governor and Lieutenant Governor	6,526	-	-	-	89	6,615
Secretary of the Commonwealth	35,996	-	-	1,709	3,612	41,317
Treasurer and Receiver-General	180,046	3,869,026	25,283	2,754	1,204,919	5,282,028
Auditor of the Commonwealth	17,100	-	-	-	68	17,168
Attorney General	42,756	-	-	9,022	2,885	54,663
Ethics Commission	1,729	-	-	-	-	1,729
District Attorney	99,031	-	-	2,106	8,689	109,826
Office of Campaign and Political Finance	1,196	-	-	-	-	1,196
Sheriff's Departments	515,153	-	-	4,348	9,334	528,835
Disabled Persons Protection Commission	2,210	-	-	-	-	2,210
Board of Library Commissioners	21,441	-	-	2,833	78	24,352
Massachusetts Gaming Commission	-	-	-	-	791	791
Comptroller	11,512	-	-	-	2,301	13,813
Administration and finance	1,693,186	-	-	5,500	250,500	1,949,186
Energy and environmental affairs	176,682	-	-	79,500	95,249	351,431
Health and human services	4,710,917	-	-	1,850,844	738,745	7,300,506
Executive office of education	1,968,449	-	-	1,085,906	15,100	3,069,455
Massachusetts department of transportation	-	-	-	7,652	1,671,073	1,678,725
Massachusetts school building assistance	-	-	975,473	-	-	975,473
Public safety and homeland security	968,625	-	-	171,829	67,370	1,207,824
Housing and economic development	425,978	-	-	516,251	57,181	999,410
Labor and workforce development	42,851	-	-	170,018	242,121	454,990
Medicaid	10,495,014	-	-	-	1,213,383	11,708,397
Post employment benefits	800,800	-	-	-	-	800,800
Direct local aid	4,991,489	-	-	-	-	4,991,489
Capital outlay:						
Local aid	-	-	-	-	43	43
Capital acquisition and construction	-	-	-	-	847,484	847,484
Debt service	-	-	343,664	-	2,160,589	2,504,253
Total expenditures	**28,024,676**	**3,869,026**	**1,344,420**	**3,911,419**	**8,592,569**	**45,742,110**
Excess (deficiency) of revenues over (under) expenditures	**1,407,060**	**1,075,246**	**(569,933)**	**139,799**	**(3,011,543)**	**(959,371)**
OTHER FINANCING SOURCES						
Bonds premium	-	-	98,634	-	161,575	260,209
Issuance of general and special obligation bonds	-	-	1,142,380	-	1,759,627	2,902,007
Issuance of refunding bonds	-	-	-	-	388,375	388,375
Proceeds of capital leases	4,115	-	-	-	-	4,115
Transfers in for debt service	-	-	-	-	2,153,511	2,153,511
Transfers in	2,068,886	-	-	-	1,810,259	3,879,145
Total other financing sources	**2,073,001**	**-**	**1,241,014**	**-**	**6,273,347**	**9,587,362**
OTHER FINANCING USES						
Principal on current refundings	-	-	-	-	388,050	388,050
Transfers out	1,116,192	1,074,930	-	115,670	1,398,526	3,705,318
Transfers of appropriations	1,048,937	-	-	-	1,192	1,050,129
Transfers of bond proceeds	-	-	-	-	279,653	279,653
Transfers out for debt service	1,020,223	-	-	-	1,133,288	2,153,511
Total other financing uses	**3,185,352**	**1,074,930**	**-**	**115,670**	**3,200,709**	**7,576,661**
Total other financing sources and uses	**(1,112,351)**	**(1,074,930)**	**1,241,014**	**(115,670)**	**3,072,638**	**2,010,701**
Net change in fund balances	**294,709**	**316**	**671,081**	**24,129**	**61,095**	**1,051,330**
Fund balances (deficits) at beginning of year	3,052,636	2,106	1,093,585	59,584	1,059,717	5,267,628
Fund balances (deficits) at end of year	**$ 3,347,345**	**$ 2,422**	**$ 1,764,666**	**$ 83,713**	**$ 1,120,812**	**$ 6,318,958**

The notes to the financial statements are an integral part of this statement

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the fiscal year ended June 30, 2012
(Amounts in thousands)

Net change in fund balances - total governmental funds	**$**	**1,051,330**
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents capital outlays including increases to construction in process, but excluding reductions and dispositions		327,285
Current year depreciation expense		(194,830)
Amounts presented in the statement of activities, but not in the change in fund fund balances due to difference in revenue and expense recognition under different bases of accounting		(147,119)
Elimination of due from / due to activity between state departments within government and business-type activities		(105)
The issuance of long - term debt provides current financial resources to governmental funds, while the repayment of principal of long - term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized as part of the statement of activities. This amount is the net effect of these differences in the treatment of long - term debt and related items		(706,658)
Decrease in capital leases		518
Massachusetts School Building Authority		(727,484)
Net underfunding of post employment benefit obligations		(974,533)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. These expenses include accrued interest, lottery prizes, claims and benefits that are reported in the statement of activities, but not in funds		(93,327)
Change in net assets of governmental activities	**$**	**(1,464,923)**

The notes to the financial statements are an integral part of this statement

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Proprietary Fund Financial Statements

Collecting Apples, Clarkdale Fruit Farms, Deerfield,
Credit: Paul Franz

Employees sort through apples at Clarkdale Fruit Farms where one can find over 40 varieties of apples, peaches, plums, nectarines and pears from August through November.

Statement of Net Assets

Proprietary Funds

June 30, 2012

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
ASSETS AND DEFERRED OUTFLOWS					
Current assets:					
Cash and cash equivalents	$ 15,570	$ 78,936	$ 315,012	$ 112,070	$ 521,588
Short-term investments	-	268,600	93,433	74,429	436,462
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursements receivable	-	79,908	1,423	6,491	87,822
Loans	-	42,629	1,346	262	44,237
Other receivables	440,596	105,203	20,163	26,302	592,264
Contribution receivables, net	-	5,847	4,020	1,093	10,960
Due from affiliates	-	5,808	-	737	6,545
Other current assets	-	32,044	4,721	4,279	41,044
Total current assets	**456,166**	**618,975**	**440,118**	**225,663**	**1,740,922**
Noncurrent assets:					
Cash and cash equivalents - restricted	-	832,446	39,873	3,618	875,937
Long-term investments	-	964,330	255,667	81,181	1,301,178
Accounts receivable, net	-	50,580	6,101	793	57,474
Loans receivable, net	-	-	12,079	551	12,630
Non-depreciable capital assets	-	927,725	270,306	92,552	1,290,583
Depreciable capital assets, net	-	2,179,283	1,068,733	337,757	3,585,773
Other noncurrent assets	-	35,664	8,738	272	44,674
Other noncurrent assets - restricted	491,313	-	-	-	491,313
Total noncurrent assets	**491,313**	**4,990,028**	**1,661,497**	**516,724**	**7,659,562**
Deferred outflows of derivative investments	-	75,635	32,352	2,105	110,092
Total assets and deferred outflows	**947,479**	**5,684,638**	**2,133,967**	**744,492**	**9,510,576**
LIABILITIES					
Current liabilities:					
Accounts payable and other liabilities	81,365	222,723	42,819	26,983	373,890
Accrued payroll	-	93,555	39,506	31,847	164,908
Compensated absences	-	71,892	28,559	30,922	131,373
Accrued interest payable	-	20,218	112	242	20,572
Tax refunds and abatements payable	36,310	-	-	-	36,310
Deferred revenue	-	2,412	23,463	1,605	27,480
Student deposits and unearned revenues	-	46,248	10,096	16,809	73,153
Due to affiliates	-	15,591	1,374	1,558	18,523
Capital leases	-	5,502	780	668	6,950
Bonds, notes payable and other obligations	-	70,846	27,607	2,620	101,073
Total current liabilities	**117,675**	**548,987**	**174,316**	**113,254**	**954,232**
Noncurrent liabilities:					
Compensated absences	-	30,820	14,463	15,975	61,258
Due to federal government - grants	-	-	12,496	135	12,631
Deferred revenue	-	16,501	84,703	402	101,606
Capital leases	-	6,539	7,834	2,004	16,377
Environmental remediation liability	-	-	1,470	-	1,470
Bonds, notes payable and other obligations	-	2,169,488	1,050,648	49,180	3,269,316
Liability for derivative instruments	-	106,110	-	2,105	108,215
Other noncurrent liabilities	-	58,982	9,583	4,694	73,259
Total noncurrent liabilities	**-**	**2,388,440**	**1,181,197**	**74,495**	**3,644,132**
Total liabilities	**117,675**	**2,937,427**	**1,355,513**	**187,749**	**4,598,364**
NET ASSETS					
Invested in capital assets, net of related debt	-	1,512,924	476,707	376,407	2,366,038
Restricted for:					
Unemployment benefits	829,804	-	-	-	829,804
Higher education endowment funds	-	291,768	31,490	22,380	345,638
Higher education academic support and programs	-	-	670	4,943	5,613
Higher education scholarships and fellowships:					
Nonexpendable	-	-	11,186	3,956	15,142
Expendable	-	-	20,795	18,405	39,200
Other nonexpendable purposes	-	-	26,678	2,966	29,644
Capital projects - expendable purposes	-	-	11,355	1,096	12,451
Other purposes	-	248,361	34,724	16,288	299,373
Unrestricted	-	694,158	164,849	110,302	969,309
Total net assets	**$ 829,804**	**$ 2,747,211**	**$ 778,454**	**$ 556,743**	**$ 4,912,212**

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

Fiscal Year Ended June 30, 2012

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
Operating revenues:					
Unemployment compensation contribution	$ 1,932,561	$ -	$ -	$ -	$ 1,932,561
Net tuition and fees	-	659,180	326,188	210,056	1,195,424
Federal grants and reimbursements	-	536,031	66,258	236,724	839,013
Auxiliary enterprises	-	297,956	89,684	15,908	403,548
Sales & services	-	464,253	87,092	2,390	553,735
Miscellaneous	50,041	98,107	21,015	47,424	216,587
Total operating revenues	**1,982,602**	**2,055,527**	**590,237**	**512,502**	**5,140,868**
Operating expenses:					
Unemployment compensation	3,466,500	-	-	-	3,466,500
Instruction	-	633,481	264,366	295,503	1,193,350
Research	-	417,124	36	23	417,183
Academic support	-	147,767	74,355	88,642	310,764
Student services	-	107,246	82,977	105,660	295,883
Scholarships and fellowships	-	48,088	20,821	81,785	150,694
Public service	-	90,905	6,292	7,640	104,837
Operation and maintenance of plant	-	215,292	81,475	69,482	366,249
Institutional support	-	198,941	97,790	101,085	397,816
Other operating expenses	-	347,685	7,486	5,132	360,303
Depreciation	-	163,369	62,087	26,273	251,729
Auxiliary operations	-	235,633	109,204	15,726	360,563
Total operating expenses	**3,466,500**	**2,605,531**	**806,889**	**796,951**	**7,675,871**
Operating income (loss)	**(1,483,898)**	**(550,004)**	**(216,652)**	**(284,449)**	**(2,535,003)**
Nonoperating revenues (expenses):					
Other federal revenues	1,648,615	6,855	-	-	1,655,470
Other revenues	-	240,071	77,203	22,941	340,215
Other expenses	-	(78,508)	(44,229)	(4,087)	(126,824)
Investment income (loss)	30,859	21,937	12,223	1,952	66,971
Total nonoperating revenues (expenses)	**1,679,474**	**190,355**	**45,197**	**20,806**	**1,935,832**
Income (loss) before transfers	**195,576**	**(359,649)**	**(171,455)**	**(263,643)**	**(599,171)**
Transfers in	-	615,049	254,857	286,049	1,155,955
Change in net assets	**195,576**	**255,400**	**83,402**	**22,406**	**556,784**
Total net assets - beginning, as restated	634,228	2,491,811	695,052	534,337	4,355,428
Total net assets - ending	**$ 829,804**	**$ 2,747,211**	**$ 778,454**	**$ 556,743**	**$ 4,912,212**

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows

Proprietary Funds

June 30, 2012

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Collection of unemployment contributions	$ 1,688,701	$ -	$ -	$ -	$ 1,688,701
Tuition, residence, dining and other student fees	-	730,873	335,212	223,364	1,289,449
Research grants and contracts	-	667,310	137,045	262,568	1,066,923
Payments to suppliers	-	(989,163)	(206,632)	(194,083)	(1,389,878)
Payments to employees	-	(1,539,116)	(403,787)	(422,909)	(2,365,812)
Payments to students	-	(54,390)	(19,376)	(79,557)	(153,323)
Payments for unemployment benefits	(3,398,913)	-	-	-	(3,398,913)
Collection of loans to students and employees	-	5,353	1,159	1,181	7,693
Income from contract services	-	-	11,606	1,189	12,795
Maintenance costs	-	-	(841)	893	52
Auxiliary enterprise charges	-	301,266	53,536	(4,887)	349,915
Other receipts	50,041	501,469	14,823	29,996	596,329
Net cash used by operating activities	**(1,660,171)**	**(376,398)**	**(77,255)**	**(182,245)**	**(2,296,069)**
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES					
State appropriations	-	543,590	195,995	210,960	950,545
Grants and contracts	1,648,615	73,908	1,657	1,231	1,725,411
Student organizations agency transactions	-	(40)	-	(1,290)	(1,330)
Other receipts (payments)	(3,733)	31,639	3,501	(522)	30,885
Net cash provided by non-capital financing activities	**1,644,882**	**649,097**	**201,153**	**210,379**	**2,705,511**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital appropriations	-	133,653	18,401	10,217	162,271
Purchases of capital assets	-	(664,156)	(159,545)	(37,797)	(861,498)
Proceeds from sales of capital assets	-	-	-	(2,196)	(2,196)
Proceeds from revenue obligation debt issuance	-	-	380,126	8,301	388,427
Other capital asset activity	-	46,163	(185,920)	5	(139,752)
Investments held by bond trustee, net	-	-	5	(9)	(4)
Principal paid on capital debt and leases	-	(72,885)	(24,641)	(5,355)	(102,881)
Interest paid on capital debt and leases	-	(54,929)	(42,743)	(2,478)	(100,150)
Net cash provided by (used in) capital financing activities	**-**	**(612,154)**	**(14,317)**	**(29,312)**	**(655,783)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	-	1,379,520	189,168	72,722	1,641,410
Purchases of investments	-	(1,409,649)	(299,279)	(78,879)	(1,787,807)
Investment earnings	30,859	33,668	(2,069)	891	63,349
Net cash provided by (used by) investing activities	**30,859**	**3,539**	**(112,180)**	**(5,266)**	**(83,048)**
Net increase (decrease) in cash and cash equivalents	**15,570**	**(335,916)**	**(2,599)**	**(6,444)**	**(329,389)**
Cash and cash equivalents at the beginning of the fiscal year	-	1,247,298	357,484	122,132	1,726,914
Cash and cash equivalents at the end of the fiscal year	**$ 15,570**	**$ 911,382**	**$ 354,885**	**$ 115,688**	**$ 1,397,525**
Reconciliation of net operating revenues and expenses to cash used by operating activities:					
Operating loss	$ (1,483,898)	$ (550,004)	$ (216,652)	$ (284,449)	$ (2,535,003)
Adjustments to reconcile operating loss to net cash used by operating activities:					
Depreciation expense	-	163,369	62,087	26,273	251,729
Fringe benefits paid by the Commonwealth	-	-	58,190	70,451	128,641
Changes in assets and liabilities:					
Accounts receivable, prepaids and other assets	(14,903)	(15,026)	(293)	(1,619)	(31,841)
Accounts payable, accrued liabilities and benefits	67,587	26,702	17,052	5,358	116,699
Student deposits and other unearned and deferred revenues	-	(867)	1,371	(792)	(288)
Other noncurrent assets - restricted and liabilities	(228,957)	(572)	990	2,533	(226,006)
Net cash used by operating activities	**$ (1,660,171)**	**$ (376,398)**	**$ (77,255)**	**$ (182,245)**	**$ (2,296,069)**

Non-cash investing, capital and financing activities:

The University System had approximately $64 million of non-cash activities, and the State and Community Colleges had approximately $244 million of non-cash activities, including new capital leases.

The notes to the financial statements are an integral part of this statement.

Fiduciary Fund Financial Statements

Crow Farm, Sandwich

Credit: William DeSousa-Mauk

Statement of Net Assets

Fiduciary Funds
June 30, 2012
(Amounts in thousands)

	Post - Employment Benefits Trust Funds	External Investment Trust Funds	Private Purpose Funds	Agency Funds
ASSETS				
Cash and short-term investments	$ -	$ -	$ 819	$ 406,397
Assets held in trust for post-employment benefits:				
Cash and short-term investments	286,805	28,206	-	-
Investments at fair value	40,397,152	8,301,896	-	-
Assets held in trust for pool participants:				
Cash and short-term investments	-	3,079,693	-	-
Investments, restricted investments and annuity contracts	-	-	-	1,385,875
Assets held in trust	-	-	-	720,120
Receivables, net of allowance for uncollectibles:				
Taxes	-	-	-	2,477
Other receivables	681,009	143,211	-	117,624
Total assets	**41,364,966**	**11,553,006**	**819**	**2,632,493**
LIABILITIES				
Accounts payable	682,584	140,804	-	72,422
Due to cities and towns	-	-	-	28,016
Lottery prizes payable	-	-	-	1,385,875
Agency liabilities	-	-	-	1,146,180
Other accrued liabilities	-	285	-	-
Total liabilities	**682,584**	**141,089**	**-**	**$ 2,632,493**
NET ASSETS				
Restricted for employees' post-employment benefits	40,682,382	-	-	
Restricted for external investment trust fund participants	-	11,411,917	-	
Restricted for private purposes	-	-	819	
Total net assets	**$ 40,682,382**	**$ 11,411,917**	**$ 819**	

The notes to the financial statements are an integral part of this statement

Statement of Changes in Net Assets

Fiduciary Funds
Fiscal Year Ended June 30, 2012
(Amounts in thousands)

	Post - Employment Benefits Trust Funds	External Investment Trust Funds	Private Purpose Funds
ADDITIONS			
Contribution:			
Employer contributions	$ 1,892,713	$ -	$ -
Employee contributions	1,184,614	-	-
Proceeds from sale of units	-	18,222,794	-
Total contributions	**3,077,327**	**18,222,794**	**-**
Net investment gain (loss):			
Investment gain (loss)	(166,100)	(10,296)	-
Less: investment expense	(57,356)	(13,361)	-
Net investment gain (loss)	**(223,456)**	**(23,657)**	**-**
Total additions	**2,853,871**	**18,199,137**	**-**
DEDUCTIONS			
Administration	38,922	-	15
Retirement benefits and refunds	4,387,722	-	-
Payments to State Boston Retirement System	90,399	-	-
Cost of units redeemed	-	18,054,827	-
Distribution to unit holders	-	8,361	-
Total deductions	**4,517,043**	**18,063,188**	**15**
Net increase (decrease)	**(1,663,172)**	**135,949**	(15)
Net assets - beginning	42,345,554	11,275,968	834
Net assets - ending	**$ 40,682,382**	**$ 11,411,917**	**$ 819**

The notes to the financial statements are an integral part of this statement

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Discretely Presented Component Unit Financial Statements

Lobster Bake at Gloucester House Restaurant, Gloucester, MA

Statement of Net Assets

Component Units
June 30, 2012
(Amounts in thousands)

	Massachusetts Department of Transportation	Commonwealth Health Insurance Connector	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Total
ASSETS AND DEFERRED OUTFLOWS					
Current assets:					
Cash and cash equivalents	$ 259,451	$ 28,007	$ 357,127	$ 182,517	$ 827,102
Short-term investments	-	-	3,584	195,128	198,712
Restricted cash and investments	1,264,326	6,056	-	31,696	1,302,078
Assets held in trust	-	-	-	118,301	118,301
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursement receivable	59,631	-	56,960	1,462	118,053
Loans	-	-	249,177	51,655	300,832
Other receivables	106,129	2,975	63,068	35,297	207,469
Due from primary government	468,268	-	2,313	42,591	513,172
Inventory	-	-	-	202	202
Other current assets	102,399	191	-	4,214	106,804
Total current assets	**2,260,204**	**37,229**	**732,229**	**663,063**	**3,692,725**
Noncurrent assets:					
Cash and cash equivalents - restricted	947,681	-	-	76,631	1,024,312
Long - term investments	-	-	1,428,695	73,419	1,502,114
Restricted investments and annuity contracts	-	-	-	123,787	123,787
Accounts receivables, net	-	-	-	4,768	4,768
Loans receivables, net	-	-	3,674,409	518,887	4,193,296
Non-depreciable capital assets	5,140,748	-	-	106,799	5,247,547
Depreciable capital assets, net	25,523,502	133	-	992,946	26,516,581
Other noncurrent assets	105,055	-	9,766	22,089	136,910
Total noncurrent assets	**31,716,986**	**133**	**5,112,870**	**1,919,326**	**38,749,315**
Deferred outflows from derivative instruments	360,753	-	2,067	21,643	384,463
Total assets and deferred outflows	**34,337,943**	**37,362**	**5,847,166**	**2,604,032**	**42,826,503**
LIABILITIES					
Current liabilities:					
Accounts payable and other liabilities	646,252	1,040	1,303	76,698	725,293
Accrued payroll	-	401	-	76	477
Compensated absences	23,898	-	-	2,563	26,461
Accrued interest payable	158,758	-	68,314	1,317	228,389
Due to primary government	-	-	-	438	438
Deferred revenue	51,320	183	29,797	150,197	231,497
Capital leases	24,407	-	-	-	24,407
Bonds, notes payable and other obligations	587,396	-	172,305	28,772	788,473
Total current liabilities	**1,492,031**	**1,624**	**271,719**	**260,061**	**2,025,435**
Noncurrent liabilities:					
Compensated absences	21,070	-	-	1,257	22,327
Accrued interest payable	162,499	-	-	2,685	165,184
Due to primary government	-	-	-	14,673	14,673
Deferred revenue	-	-	-	32,627	32,627
Capital leases	124,760	-	-	-	124,760
Bonds, notes payable and other obligations	7,480,098	-	3,468,098	595,787	11,543,983
Post - employment benefits obligations	581,526	2,037	-	3,509	587,072
Liability for derivative instruments	614,670	-	2,067	21,643	638,380
Other noncurrent liabilities	206,464	7,783	92,415	12,948	319,610
Total noncurrent liabilities	**9,191,087**	**9,820**	**3,562,580**	**685,129**	**13,448,616**
Total liabilities	**10,683,118**	**11,444**	**3,834,299**	**945,190**	**15,474,051**
NET ASSETS					
Invested in capital assets, net of related debt	23,676,181	133	-	935,000	24,611,314
Restricted for:					
Clean energy trusts	-	-	-	183,463	183,463
Economic development financing	-	-	-	170,435	170,435
Financial assistance to local communities and agencies	-	-	1,746,043	-	1,746,043
Other purposes	792,007	-	-	100,330	892,337
Unrestricted	(813,363)	25,785	266,824	269,614	(251,140)
Total net assets	**$ 23,654,825**	**$ 25,918**	**$ 2,012,867**	**$ 1,658,842**	**$ 27,352,452**

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses and Changes in Net Assets

Component Units

Fiscal Year Ending June 30, 2012

(Amounts in thousands)

	Massachusetts Department of Transportation	Commonwealth Health Insurance Connector	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Total
Operating revenues:					
Charges for services	$ 1,087,388	$ 848,607	$ 5,345	$ 149,789	$ 2,091,129
Other	63,151	-	216,039	136,793	415,983
Total operating revenues	**1,150,539**	**848,607**	**221,384**	**286,582**	**2,507,112**
Operating expenses:					
Cost of services	2,971,366	848,646	229,892	239,860	4,289,764
Administration costs	786,912	-	3,560	101,289	891,761
Depreciation	1,073,488	-	-	55,706	1,129,194
Total operating expenses	**4,831,766**	**848,646**	**233,452**	**396,855**	**6,310,719**
Operating income (loss)	**(3,681,227)**	**(39)**	**(12,068)**	**(110,273)**	**(3,803,607)**
Nonoperating revenues (expenses):					
Operating grants	3,498,357	3,181	36,700	98,208	3,636,446
Interest income	46,792	100	-	2,864	49,756
Other nonoperating revenues (expenses)	33,642	(2,000)	-	(5,504)	26,138
Nonoperating revenues (expenses), net	**3,578,791**	**1,281**	**36,700**	**95,568**	**3,712,340**
Income (loss) before contributions	**(102,436)**	**1,242**	**24,632**	**(14,705)**	**(91,267)**
Capital contributions	-	-	83,077	5,865	88,942
Other losses	-	-	-	(3,640)	(3,640)
Change in net assets	**(102,436)**	**1,242**	**107,709**	**(12,480)**	**(5,965)**
Net assets - beginning, as restated	23,757,261	24,676	1,905,158	1,671,322	27,358,417
Net assets - ending	**$ 23,654,825**	**$ 25,918**	**$ 2,012,867**	**$ 1,658,842**	**$ 27,352,452**

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING ENTITY – BASIS OF PRESENTATION

The accompanying financial statements of the Commonwealth of Massachusetts (Commonwealth) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commonwealth accounting policies are described below.

The Commonwealth is comprised of three branches: the Executive Branch, with the Governor as the chief executive officer; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 160 members; and the Judicial Branch, made up of the Supreme Judicial Court, the Appeals Court and the Trial Court. In addition, the Legislature has established 57 independent authorities and agencies. Below the level of state government are 351 cities and towns exercising the functions of local governments. The cities and towns of the Commonwealth are also organized into 14 counties, but 7 of those county governments have been abolished in recent years.

For financial reporting purposes, the Commonwealth has included all funds, organizations, agencies, boards, commissions and institutions. The Commonwealth has also considered all potential component units for which it is financially accountable, as well as other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth (the primary government) and its component units. The Commonwealth has included 15 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth. Further descriptions of component units are found in note 13 to the basic financial statements.

Blended Component Units – Blended component units are entities that are legally separate from the Commonwealth, but are so related to the Commonwealth, that they are, in substance, the same as the Commonwealth or entities providing services entirely or almost entirely to the Commonwealth. The net assets and results of operations are presented for the Massachusetts School Building Authority (MSBA), as a major governmental fund, and for the Pension Reserves Investment Trust Fund (PRIT) and the Massachusetts Municipal Depository Trust (MMDT) as external investment trusts.

Entity Audited Separately from the Commonwealth but is not legally separate from the Commonwealth – this includes the Massachusetts State Lottery Commission, which is a division of the Office of the State Treasurer and Receiver–General.

The Institutions of Higher Education of the Commonwealth are also not legally separate from the Commonwealth and have operations and net assets that are presented as part of the Commonwealth's business-type activities. These include the University of Massachusetts System (including component units) and the State University and Community College System of 9 state universities and 15 community colleges as well as the Massachusetts State College Building Authority (MSCBA), which is a blended component unit of the state university system. The various community and state universities also have foundations and ancillary entities that are discretely presented component units of those entities.

Other Discretely Presented Component Units that are Separately Audited - Three major component units, the Massachusetts Department of Transportation (MassDOT), the Commonwealth Health Insurance Connector and the Massachusetts Water Pollution Abatement Trust (MWPAT) are presented in the basic financial statements. There are ten non-major component units.

The Massachusetts Department of Transportation

The Commonwealth made a significant structural change to the government operations in FY10. Understanding the financial impact of this change is integral to understanding the Commonwealth financial statements. In June of 2009, the Commonwealth enacted legislation effective on November 1, 2009, implementing sweeping transportation reform and creating a new entity, the Massachusetts Department of Transportation (MassDOT).

MassDOT has attributes of a state department as well as an authority. It operates like a state department for purposes of state finance laws and is reported as part of the Commonwealth for compliance with federal and state tax law as well as the State

Single Audit. In this unique relationship all road and bridge assets of the Commonwealth and the Turnpike Authority have been transferred to MassDOT, while the Commonwealth will continue to hold current and future debt for the construction repair, improvement and replacement of these assets. The Commonwealth also retains the liabilities for pension and other post-employment benefits (OPEB) costs for the former Commonwealth employees transferred to this entity and has assumed these liabilities for the 1,200 employees and 700 retirees of the former Turnpike Authority. MassDOT is assessed a fringe benefit rate on their current employee base to share in these pension and OPEB costs as well as to reimburse the Commonwealth for their employee health care costs, which are paid from the Commonwealth's General Fund. MassDOT's capital authorizations are authorized by the legislature and controlled by the Executive Office of Administration and Finance like other state departments. Toll revenues are retained and expended by MassDOT. All non-toll revenues (primarily Registry fees and federal reimbursements) are deposited with the Commonwealth and used to finance MassDOT operating appropriations and infrastructure improvements. The result of this unique structure is that the Commonwealth retains significant liabilities for resources dedicated to the construction of assets controlled and managed by MassDOT.

Related Organizations

The following are "related organizations" under GASB Statement No. 14, *The Financial Reporting Entity*, as amended by Statement No. 39; *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14*: Massachusetts Port Authority, Massachusetts Housing Finance Agency, Massachusetts Health and Educational Facilities Authority and Massachusetts Technology Development Corporation. The Commonwealth is responsible for appointing a voting majority of the members of each entity's board, but the Commonwealth's accountability does not extend beyond the appointments. These entities do not meet the criteria for inclusion as component units of the Commonwealth and therefore are not part of these financial statements.

Availability of Financial Statements

The separately audited financial statements of the Commonwealth's component units and funds may be obtained from the various entities, or contact the Office of the Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660 for the contact information.

B. GOVERNMENT–WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are defined as either governmental or business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government–Wide Financial Statements

The **Statement of Net Assets** presents all of the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories.

Restricted net assets are used prior to unrestricted net assets.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the

definition of program revenues are instead reported as general revenue and offset or supplant the net operating deficit or surplus from governmental or business–type operations.

Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures and changes in fund balances for its major and aggregated non-major funds.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with non-major funds being combined into a single column.

The Commonwealth reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

Governmental Activities – Government–wide financial statements are reported using the economic resources management focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental Funds – Fund financial statements account for the general governmental activities of the Commonwealth. Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual and are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services are recognized in the year the materials are received, the grants are expended or services are provided. The measurement period for accrual for taxes earned is generally one year for income, corporate and other taxes and within thirty days for sales and use taxes. For federal and other reimbursements, the measurement period for accrual is generally sixty days if the related expenditures being reimbursed occurred prior to year end. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due. Compensated absences, claims and judgments, termination benefits and similar activities are recognized to the extent that they are normally expected to be liquidated with expendable available financial resources. Amounts incurred but not reported for Medicaid are reported to the extent that services are rendered before June 30th.

Business–Type Activities – Government–wide financial statements account for activities for which a fee is charged to external users for goods or services. In these services, debt may be issued backed solely by these fees and charges.

There may be also a legal requirement or a policy decision to recover costs. As such, these funds account for operations similarly to a for–profit business. The Commonwealth's institutions of higher education's operations are reported as systems within the proprietary funds. Proprietary fund types are described in more detail below.

Proprietary and Fiduciary Funds – Fund financial statements are presented on the same basis of accounting as the business-type activities in the government–wide financial statements. Post-employment benefits and refunds are recognized when due and payable.

The Commonwealth reports the following fund types:

Governmental Fund Types:

General Fund, a governmental fund, is the primary operating fund of the Commonwealth. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

Special Revenue Funds account for specific revenue sources that have been aggregated according to Commonwealth general laws to support specific governmental activities.

Debt Service Fund accounts for the accumulation of resources for and the payment of debt.

Capital Projects Funds account for the acquisition or construction of major Commonwealth capital facilities financed primarily from bonds and federal reimbursements.

Within the governmental fund types, the Commonwealth has established the following major funds, in addition to the General Fund:

Lottery Funds are governmental funds and account for the operations of the State and Arts Lotteries, which primarily finance payments for local aid to cities and towns.

The Massachusetts School Building Authority is presented as a governmental fund. This is comprised of the activity of the blended component unit, the Massachusetts School Building Authority, accounting for grants to cities, towns and regional school districts for school construction and renovation projects.

Federal Grants Fund, accounts for grants and federal reimbursement programs.

Proprietary Fund Types:

Business-Type Activities account for programs financed in whole or in part by fees charged to external parties for goods and services. Major Proprietary Funds are the Unemployment Compensation Fund, the University of Massachusetts, State Universities and Community Colleges.

The proprietary funds include the following:

Unemployment Compensation Fund reports the taxes collected from employers and held by the United States Treasury in the Federal Unemployment Trust Fund, from which funds are drawn for the payment of benefits to the unemployed.

College and University Information, is presented here, aggregated by the University's activity, the State Universities' activity and the Community Colleges' activity.

Fiduciary Fund Types:

Post-Employment Benefit Trust Funds report resources that are required to be held in trust for the members and beneficiaries of the Commonwealth's post-employment benefit plans. These funds recognize employer and participant contributions in the period when contributions are due, and the Commonwealth has made a formal commitment to provide the contributions via an appropriation. Further information on the significant accounting policies for post-employment benefit trust funds may be found in note 9 to the basic financial statements.

External Investment Trust Funds account for the portion of pooled cash and pension assets held under the custodianship of the Commonwealth for the benefit of cities, towns and other political subdivisions of the Commonwealth.

Private Purpose Funds account for various gifts and bequests held by the Commonwealth of which only the income is expendable for purposes specified by the donor. The majority of the individual accounts are for perpetual cemetery care endowments on behalf of deceased individuals.

Agency Funds account for assets the Commonwealth holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

Fund Balances:

Governmental fund balances are considered nonspendable, restricted, committed, assigned, and unassigned, based on the relative strength of spending constraints.

Nonspendable fund balances are those that cannot be spent because they are either: (a) not in spendable form; or (b) legally or contractually required to be maintained intact, such as balances in the form of inventories, permanent funds, and notes receivable. For the Commonwealth, the only nonspendable balances are notes receivable in the non-major governmental funds.

Restricted fund balances are those where constraints on their use are: a) externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments; or b) imposed by constitutional provisions or enabling legislation such that there is a legally enforceable requirement that those resources be used only for the specific purposes stipulated. Legal enforceability means that a government can be compelled by an external party—such as citizens, public interest groups, or the judiciary—to use resources created by enabling legislation only for the stipulated purposes.

Committed balances are those that can be used only for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which in the case of the Commonwealth is the Legislature and Governor. Committed amounts cannot be used for other than the specified purposes unless the Governor and Legislature remove or change the specified use through legislation. The authorization specifying the purposes for which amounts can be used must have the consent of both the legislative and executive branches of the government prior to the end of the reporting period.

Assigned balances are amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by: (a) the governing body itself; or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. In distinction to restricted and committed balances, the authority for making an assignment is not required to be the government's highest level of decision-making authority, i.e., the Legislature and Governor, and the action to assign fund balance can occur after the end of the year. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances–constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed. Per GASB 54, assigned balances include those funds remaining at the end of the fiscal year that are reappropriated for the following fiscal year.

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes in the General Fund. The General Fund is the only fund that reports a positive unassigned fund balance amount. In addition, in accordance with GASB No. 54, negative balances in other governmental funds are classified as unassigned.

While the Commonwealth has not announced a formal policy governing the priority of spending fund balances, in conformance with GASB 54 requirements, when an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, restricted resources are spent first, followed by committed resources, assigned resources and unassigned resources.

Detail of FY12 ending fund balances is shown in the table below.

Governmental Fund Balances at June 30, 2012
(amounts in thousands)

	Nonspendable Purposes	Restricted Purposes	Committed Purposes	Assigned Purposes	Unassigned Purposes	Totals
General Fund						
General Government	$ -	$ -	$ -	$ -	$ 1,532,341	$ 1,532,341
Stabilization Fund	-	-	1,652,118	-	-	1,652,118
FY13 Appropriations	-	-		162,886	-	162,886
Subtotals, General Fund	-	-	**1,652,118**	**162,886**	**1,532,341**	**3,347,345**
Lottery Funds						
Lottery Operations	-	-	-	2,422	-	2,422
Subtotals, Lottery Funds	-	-	-	**2,422**	-	**2,422**
Massachusetts School Building Authority (MSBA)						
Debt Service	-	772,526	-	-	-	772,526
Grants to Cities, Towns and Local School Districts	-	582,827	-	409,313	-	992,140
Subtotals, MSBA	-	**1,355,353**	-	**409,313**	-	**1,764,666**
Federal Grants Fund						
Restricted by Federal Grantors	-	83,713	-	-	-	83,713
Subtotals, Federal Grants Fund	-	**83,713**	-	-	-	**83,713**
Other Governmental Funds						
Environmental	-	-	58,471	-	-	58,471
Public Safety	-	-	104,178	-	-	104,178
Health Care	-	-	190,832	-	-	190,832
Child Support	-	57,495	-	-	-	57,495
Workforce Training	-	-	18,621	-	-	18,621
Convention Centers	-	94,152	43,908	-	-	138,060
General Government Capital Projects	-	-	29,044	-	(191,075)	(162,031)
General Government Debt Service	-	21,031	-	-	-	21,031
Transportation (GANS*/Commonwealth Transportation Fund)	-	212,636	14,727	-	-	227,363
Gaming	-	-	14,145	-	-	14,145
Expendable Trusts	914	370,907	185,454	-	-	557,275
Other	-	-	92,660	-	(197,288)	(104,628)
Subtotals, Other Governmental Funds	**914**	**756,221**	**752,040**	-	**(388,363)**	**1,120,812**
Totals	**$ 914**	**$ 2,195,287**	**$ 2,404,158**	**$ 574,621**	**$ 1,143,978**	**$ 6,318,958**

*Federal Grant Anticipation Notes

The Commonwealth does not have a formally adopted minimum fund balance policy. However, most governmental funds cannot end a fiscal year in deficit. Those that are authorized are discussed in note 8 to the basic financial statements, "Individual Fund Deficits."

Stabilization Fund Arrangements:

In accordance with Section 2H of Chapter 29 of the Massachusetts General Laws, the Commonwealth maintains a Stabilization ("Rainy Day") Fund. Per Chapter 29, balances in the Stabilization Fund can be expended only when non-routine budget shortfalls occur and upon appropriation by the Legislature and approval by the Governor. Chapter 29 requires that after calculating the Commonwealth's "consolidated net surplus" (the sum of the "undesignated" balances in the state's budgeted funds, equal to balances that are not restricted nor reappropriated for the following fiscal year) ½ of 1% of the amount of tax revenues in that fiscal year be carried forward and be available for appropriations in the following fiscal year, ½ of 1% of tax revenues be transferred to the Stabilization Fund, and any remaining surplus be transferred to the Stabilization Fund. In addition, withholding taxes on certain Lottery winnings are required to be transferred to the Stabilization Fund. Starting in FY10, statute requires the Comptroller, after certification by the Commissioner of Revenue, to transfer any capital gains tax revenues in excess of $1 billion during a fiscal year to the Stabilization Fund. Beginning in FY12, statute requires the Comptroller, after certification by the Commissioner of Revenue and the Attorney General, to transfer to the Stabilization Fund all revenue from individual settlements and judgments that exceed $10 million.

Historically, balances in the Stabilization Fund have been used almost exclusively during recessionary periods to offset budget shortfalls after other budgetary measures have been taken. Per Chapter 29, the Commonwealth is required to maintain

a balanced budget, and if a revenue shortfall is projected, the Secretary of Administration and Finance is required to reduce state agencies' spending authorizations in an amount equal to any projected shortfall.

The Stabilization Fund ended FY12 with a balance of $1.652 billion. For the fiscal year ending June 30, 2012, the Stabilization Fund's balance increased by $273 million as a result of almost $117 million in surplus transfers, over $375 million in judgement and settlement receipts and $1 million in statutorily mandated transfers of withholding taxes on certain Lottery proceeds, offset by $220 million in withdrawals during the fiscal year. In accordance with GASB 54 requirements, balances in the Stabilization Fund are classified as committed.

Reporting Standards

As allowed by GASB statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Commonwealth's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Fiscal Year-End

All funds and discretely presented component units are reported using fiscal years, which end on June 30.

Program Revenue

Program revenue is defined by the Commonwealth to be the revenue from fees and assessments collected by departments that are directly applicable to that department's operations.

Operating and non-operating revenues and expenses

Revenues and expenses of business-type activities and proprietary funds are classified as operating or non-operating and are subclassified by object. Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as non-operating.

D. CASH, SHORT-TERM INVESTMENTS AND INVESTMENTS

The Commonwealth follows the practice of pooling cash and cash equivalents. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost. Interest earned on pooled cash is allocated to the General Fund and, when so directed by law, to certain other Governmental Funds.

The Office of the Treasurer and Receiver-General (Treasury) manages the Commonwealth's short-term external mixed investment pool, the Massachusetts Municipal Depository Trust (MMDT). MMDT is comprised of two portfolios, a Cash Portfolio and a Short Term Bond Fund. The Cash Portfolio is a money-market-like investment pool; its investments are carried at amortized cost, which approximates fair value. The Short Term Bond Fund investments are carried at fair value.

Investors in MMDT are not allowed to overdraw their shares. For a complete copy of MMDT's separately issued financial statements, please contact the Office of the State Treasurer's Cash Management Department, at (617) 367-9333.

General Law Chapter 29, Section 38 enumerates the Commonwealth's investment policy for non-pension assets.

Portions of the post-employment benefit trust funds invest in the Pension Reserves Investment Trust (PRIT) Fund, an external investment pool managed by the Pension Reserves Investment Management (PRIM) Board. The State Employees', Teachers' Public Employee Retirement Systems (PERS) and the State Retiree's Benefit Trust (SRBT), formerly the Health Care Security Trust (HST), are required to invest in the PRIT Fund and comprise approximately 39.6%, 42.6% and, 0.8% respectively, of the net assets of the PRIT Fund. For a complete copy of PRIT's separately issued financial statements, contact the PRIM Board at 84 State Street, Boston, MA 02109.

The Commonwealth's investments, including those of the PRIT Fund, are comprised of investments in marketable securities - primarily domestic and international equities and fixed income securities - as well as non-marketable securities - primarily real estate, venture capital and private equity limited partnerships, hedge fund of funds and other alternative investments. Marketable securities are reported at fair value based upon quoted market prices. Non-marketable securities are reported at estimated fair values as determined by management with input from the PRIM Board and its investment managers. Non-marketable securities comprise approximately 33.6% of the total assets of the PRIT Fund.

The investments of the PRIT are held separately from those of other Commonwealth funds, with the exception of their investments in the MMDT. Security transactions are recorded on the trade date the securities are purchased or sold. The cost of a security is the purchase price or, in the case of assets transferred to PRIT by a Participating or Purchasing System, the fair value of the securities on the transfer date.

Investments of the University of Massachusetts (UMass) are stated at fair value. Annuity contracts represent guaranteed investment contracts and are carried at present value.

E. RECEIVABLES

In general, tax revenue is recognized on the government-wide statements when assessed or levied and on the governmental financial statements to the extent that it is both measurable and available, based upon collection experience. If revenue is not received by year–end, receivables are declared. Receivables are stated net of estimated allowances for uncollectible accounts.

Reimbursements due to the Commonwealth for its expenditures on federally funded reimbursement and grant programs are reported as "Federal grants and reimbursements" or "Due from federal government" in the statement of net assets.
"Other Receivables" represent amounts due to Commonwealth including Lottery revenues and Higher Education receivables from students, amounts due to the University of Massachusetts from related organizations and other items.

Included in receivables for FY12 are amounts due to the Commonwealth under provisions of the Master Settlement Agreement between five tobacco companies and 46 states, including the Commonwealth. Pursuant to provisions of GASB Technical Bulletin No. 2004-1 "Tobacco Settlement Recognition and Financial Reporting Entity Issues", a receivable has been declared for approximately $127 million, representing 50% of the actual amounts received during FY12 and is included as part of other non-major governmental fund activity.

F. DUE FROM CITIES AND TOWNS

"Due from Cities and Towns" represents reimbursements due to the Commonwealth for its expenditures on certain programs for the benefit of cities and towns.

The MSBA has entered into various loan agreements with municipalities at a 2.0% interest rate with principal to be paid in equal installments for varying terms. Currently, the longest repayment schedule has a final payment in the fiscal year 2041. This program is designed to assist school districts with unanticipated inflationary construction costs over the district's original amount budgeted for a project. The loans outstanding as of June 30, 2012 were $121 million, of which $7 million is due in FY13. During FY12, the MSBA executed $6 million of new loans and collected $6 million of scheduled principal payments.

G. CAPITAL ASSETS

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the applicable governmental or business-type activity columns of the government-wide financial statements.

Methods used to value capital assets

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

Capitalization policies

All land, non-depreciable land improvements and donated historical treasures or works of art are capitalized. Single pieces of equipment, vehicles, computer equipment and software that equal or exceed $50,000 ($1,000 for the University of Massachusetts) are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds $100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Depreciation and useful lives

Applicable capital assets are depreciated using the straight-line method. Unless unallocable, depreciation expense is charged to the function of the capital asset being depreciated. Estimated useful lives are as follows:

Type of Asset	Estimated Useful Life (in years)
Buildings	40
Infrastructure - roads, bridges and tunnels	40
Infrastructure - beaches, boardwalks, bikeways, etc	20
Infrastructure - dams, water and sewer systems	50
Furniture	10
Library collections that are not historical treasures	15
Equipment, office equipment and life safety equipment	10
Computer hardware and software	3 to 7
Vehicles	5

Road and Bridge Assets

Effective November 1, 2009 all road and bridge assets formerly owned by the Commonwealth are owned by MassDOT. The debt incurred for the construction of these assets remains a liability of the Commonwealth.

Construction in process

Construction in process includes all associated cumulative costs of a constructed capital asset. Construction in process is relieved at the point at which an asset is placed in service for its intended use.

Capital assets of the Component Units are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets.

H. INTERFUND / INTRAFUND TRANSACTIONS

As a general rule, the effect of interfund activity has been eliminated in the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned. Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

I. STATEWIDE COST ALLOCATION PLAN – FRINGE BENEFIT COST RECOVERY

The Commonwealth has elected not to present its cost allocation and recovery separately on the statement of activities. Certain costs of nine "central service" agencies of the Commonwealth are recovered from the remaining agencies in a federally approved statewide cost allocation plan. These costs that are allocated are based upon benefits received by the user agency that benefit from these services. The Commonwealth also appropriates and pays the fringe benefit costs of its employees and retirees, as well as MassDOT employees and retirees, through the General Fund. These fringe benefits

include the costs of employees' group health insurance, pensions, unemployment compensation and other costs necessary to support the workforce. As directed by Massachusetts General Laws, these costs are assessed to other funds based on payroll costs, net of credits for direct payments. Since fringe benefit costs are not separately appropriated or otherwise provided for in these funds, the required assessment creates an unfavorable budget variance in the budgeted funds. The employees' group health insurance and workers' compensation activity is accounted for in the governmental funds.

J. SCHOOL CONSTRUCTION GRANTS, CONTRACT ASSISTANCE AND OTHER PAYABLES

The Commonwealth, through the MSBA, reimbursed cities, towns and regional school districts for 50% to 90% of approved eligible construction and borrowing costs for school construction and renovation. Under the former building assistance program (prior to the creation of the MSBA) the Commonwealth also continues to reimburse municipalities and regional school districts for 728 previously approved projects noted by MSBA as prior grant projects. The MSBA has assumed responsibility for these projects under its enabling statute. The liability for these projects will be reduced over time through annual payments, savings from project audits made by the MSBA and savings from refundings. In addition, the MSBA funds projects on a waiting list either via a lump sum or through progress payments. Each funding method has different eligibility requirements. Lump sum payment projects have a liability that is recognized once construction has started. For progress payment projects, a liability is generally recognized once a grantee requests reimbursement from the MSBA. Projects not recognized are noted as commitments by the MSBA. The MSBA is committed to paying for its share of projects on the waiting list once communities meet all eligibility requirements for receiving grants. The amount of commitments outstanding for the waiting list projects is $84 million and is anticipated to be funded under the progress payment method. The MSBA has recorded a liability of $137 million for the reimbursements due for these projects. New Program projects that are not currently recognized as a liability are considered commitments of the MSBA. New programs have been established by the MSBA under which communities submit monthly requests for reimbursement. As of June 30, 2012, MSBA had $14 million commitments outstanding for the new program projects. The Commonwealth appropriates funds to support these commitments on an annual basis.

The Commonwealth recognizes contract assistance on an annual basis due to the Massachusetts Water Pollution Abatement Trust (MWPAT). This assistance is applied as a subsidy to repayments from MWPAT loan borrowers. The expectation is that the assistance will be available for the life of the MWPAT financing agreement. The assistance is drawn from the Commonwealth on a 20-year repayment stream, even if the loan is for a longer period. If there is a differential between the assistance received and the amounts needed for loan subsidies, that amount is invested by MWPAT in an annuitized fashion to be used beyond year 20. If assistance is not provided by the Commonwealth, the MWPAT borrower is obligated for any shortfall.

Accounts payable includes amounts due to vendors of the Commonwealth for goods and services delivered before June 30th but paid for after year-end, the largest of which is Medicaid for $944 million.

K. COMPENSATED ABSENCES

Compensated absences are recorded as a long-term liability in the statement of net assets. For the governmental fund statements, accumulated vacation and sick leave are reported as expenditures and fund liabilities when incurred upon retirement, termination or death. Sick and vacation payments to terminated employees as of June 30, 2012 but paid after the fiscal year end are also reported in the funds.

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rate of pay.

Compensated absences in the governmental funds are liquidated from the same sources that fund the personnel expenses of the employees who are compensated for unused vacation and sick leave pay. In most cases, this is the General Fund, but also includes non-General Fund sources to the extent that personnel expenses are charged to those funding sources.

In the business-type activity and the discretely presented component units, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

L. DEDICATED REVENUES AND PLEDGES

The Commonwealth has a number of pledges of revenue streams for its own bonds and various other bond issues of other authorities. Commonwealth debt supported by dedicated revenue streams include special obligation bonds for road and bridge construction secured by motor fuels taxes and federal grant anticipation notes (GANS) secured by federal grants for highway construction. Detailed information on pledges for the Commonwealth's own debt is included in sections B and C of note 7.

Portions of Commonwealth sales taxes are pledged as security for bonds issued by the Massachusetts Bay Transportation Authority (MBTA) and the Massachusetts School Building Authority (MSBA). The MBTA receives sales tax revenues equal to 1% of applicable sales, subject to an annual floor set in statute. In FY12, total dedicated sales tax revenue that was directed to the MBTA was approximately $779 million, $109 million more than would have been the case were the dedicated revenue equal to 1% of applicable sales. As a result, in FY12 the MBTA received from the Commonwealth sales tax revenues equal to 1.16% of applicable sales, and is expected to receive approximately this percentage of applicable sales for the foreseeable future. Dedicated revenues to the MBTA increase by the lesser of the annual increase in the Boston consumer price index or annual sales taxes, with a floor of 0% and a ceiling of 3%.

The MSBA also receives a pledge of sales tax that, starting in FY11, increased to 1% of applicable sales in the Commonwealth but with no annual floor or ceiling. In FY12, approximately $670 million of the dedicated sales tax revenue stream was directed to the MSBA.

The Commonwealth has also pledged sales tax revenue and rooms tax surcharges from areas contiguous to convention centers and the Worcester DCU Arena and Convention Center to support such centers' operations. As of June 30, 2012, taxes within the Convention Center districts support approximately $639 million of outstanding principal and approximately $492 million of interest on debts related to these Convention Centers. Taxes collected in FY12 were approximately $96 million, while debt service on the bonds was approximately $36.3 million.

Finally, as part of the Transportation Modernization Act of 2009, as amended, a further pledge of sales taxes was made. Beginning in FY11, 0.385% of applicable sales and uses on a total tangible property tax rate of 6.25% is dedicated to funding the operations of MassDOT through the Commonwealth Transportation Fund. The Act has a floor amount of $275 million, with a final transfer occurring on or before September 1st of the following fiscal year. In FY12, approximately $312 million in sales tax revenue was transferred to MassDOT, $37 million more than the $275 million minimum. From the Commonwealth Transportation Fund, $160 million was dedicated to funding the operations of the MBTA while an additional $15 million was dedicated to funding the operations of the regional transit authorities.

M. LOTTERY REVENUE AND PRIZES

Ticket revenues and prizes awarded by the Massachusetts Lottery Commission are recognized as drawings are held. For certain prizes payable in installments, the Commonwealth purchases annuities and principal-only and interest-only treasury strips in the Commonwealth's name, which are recorded as annuity contracts and prizes payable in the agency fund and on the statement of net assets. Though the annuities are in the Commonwealth's name in the case of a default, they are solely for the benefit of the prizewinner. The Commonwealth retains the risk related to such annuities.

N. RISK FINANCING

The Commonwealth self-insures for employees' workers' compensation, casualty, theft, tort claims and other losses. Such losses, including estimates of amounts incurred but not reported, are included as accrued liabilities in the accompanying financial statements when the loss is incurred. For employees' workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to $100,000 per occurrence, in most circumstances. The Group Insurance Commission administers health care and other insurance for the Commonwealth's employees and retirees.

O. NET ASSETS

The Commonwealth reports net assets as restricted where legally segregated for a specific future use by enabling legislation in accordance with GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation.* Otherwise, these balances are considered unrestricted.

Net assets have been restricted as follows:

"Restricted for unemployment benefits" – identifies amounts solely for the payment of unemployment compensation under federal labor laws.

"Restricted for retirement of indebtedness" – identifies amounts held by fiscal agents to fund future debt service obligations pertaining to Special Obligation Revenue Bonds authorized under Section 2*O* of Chapter 29 of the Massachusetts General Laws and Chapter 33, Acts of 1991. It also includes amounts held for Grant Anticipation Notes authorized by Chapter 11 of the Acts of 1997 and Chapter 121 of the Acts of 1998. Escrows related to crossover refundings are also restricted. Because removal of monies from these restrictions will constitute a technical default to bondholders, the amounts are restricted

"Restricted for other purposes" – identifies amounts held for various externally imposed restrictions either by creditors, grantors or laws and regulations of other governments.

"Restricted for nonexpendable purposes" – identifies amounts held as permanent investments for a specific purpose.

As of June 30, 2012, the government-wide statement of net assets reports the following as restricted net assets (amounts in thousands):

Restricted for:	Governmental Activities	Business-Type Activities	Government Wide Total
Unemployment benefits	$ -	$ 829,804	$ 829,804
Retirement of indebtedness	1,085,808	-	1,085,808
Restricted for other purposes including:			
Higher education endowment funds	-	345,638	345,638
Higher education academic support and programs	-	5,613	5,613
Higher education scholarships and fellowships:			
Nonexpendable	-	15,142	15,142
Expendable	-	39,200	39,200
Other nonexpendable purposes	-	29,644	29,644
Capital projects - expendable trusts	-	12,451	12,451
Other purposes	370,907	299,373	670,280
Total restricted net assets	$ 1,456,715	$ 1,576,865	$ 3,033,580

The net assets of the Pension Trust Funds and the Pension Reserves Investment Trust portion of the External Investment Trust Funds are restricted for post-employment benefits. These restrictions identify resources held in trust for the members and beneficiaries of the Commonwealth's post-employment plans. The Pension Reserves Investment Trust portion of the External Investment Trust Funds also includes pooled cash and pension assets held under the custodianship of the Commonwealth for the benefits of cities, towns and other political subdivisions of the Commonwealth.

P. RECLASSIFICATIONS

Certain amounts in the separately issued component units' financial statements have been reclassified to conform to the accounting classifications used by the Commonwealth. Due to the provisions of GASB Statement No. 34 (GASB 34) *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*, major governmental and proprietary funds presented in a previous year may not be presented as a major fund in the current year. These changes were made because of internal changes in accounting policies.

Q. ESTIMATES

The preparation of the Comprehensive Annual Financial Report requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial report.

Estimates also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

R. RESTATEMENTS

Restatements include changes in the beginning balances of various state universities and non-major economic development entities to reflect the early implementation of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

2. DEPOSITS, SHORT-TERM INVESTMENTS AND INVESTMENTS

Primary Government

The Commonwealth maintains cash in the MMDT Cash Portfolio that is available for use by all funds. Each fund type's net equity in the Cash Portfolio is displayed in the basic financial statements as "cash and cash equivalents".

Pooled cash and short-term investments include the following (amounts in thousands):

	Governmental Activities	Business-Type Activities	Government Wide Total
Cash and cash equivalents	$ 3,870,369	$ 521,588	$ 4,391,957
Short-term investments	296,417	436,462	732,879
Cash with fiscal agent	304,202	-	304,202
Total	$ 4,470,988	$ 958,050	$ 5,429,038

Lottery Annuity Contracts

The Massachusetts State Lottery Commission, a division of the Office of the State Treasurer and Receiver – General, purchases annuity contracts from insurance companies and United States treasury strips to fund the Commonwealth's liability for future installment prize obligations. These annuities and treasury strips represent an obligation of the insurance company and the custodial bank, respectively, to provide a fixed series of payments over a specified period. Only the annuity investments are subject to credit risk. For the annuity contracts, risk is controlled by purchasing these investments only from insurance companies with the top two ratings issued by a national recognized ratings organization. However, due to the nature of these annuity contracts, the credit quality of the insurance company issuer is subject to change. At June 30, 2012, the Commonwealth held these investments with a maturity value of approximately $1.813 billion and with a carrying value of approximately $1.386 billion. Over 87.8% of these amounts are held in United States treasury strips at a custodial bank. No insurance company has an amount of annuities over 2.8% of the overall portfolio.

MSBA Deposits and Investments

The MSBA is authorized to invest in obligations of the US Treasury, its agencies and instrumentalities, bonds or notes of public agencies or municipalities, bank time deposits, guaranteed investment contracts, money market accounts and repurchase agreements. These investments are recorded at fair value. The MSBA has an investment policy that establishes the minimum credit quality for certain instruments, outlines investment procedures and updates for periodic reporting. The MSBA investment policy does not specifically limit the amount the MSBA may invest in any one issuer.

The assets of the MSBA's OPEB Trust Fund are invested in the SRBT, which is part of the Massachusetts Pension Reserves Investment Trust Fund and follows the investment policy of the Massachusetts Pension Reserves Investment Management Board.

As of June 30, 2012, the MSBA held the following deposits and investments which are a component of Governmental Activities above (amounts in thousands):

Cash and cash equivalents	$	843,654
Cash and cash equivalents held in pooled cash		58,476
Restricted investments		772,526
Total	$	1,674,656

Custodial Credit Risk – Pooled Cash

Custodial credit risk is the risk that in the event of a bank failure, deposits and investments may not be returned to the Commonwealth. Cash balances represent amounts held in bank depository accounts that may be subject to custodial credit risk.

The Commonwealth requires all bank deposits in excess of insurance coverage by the Federal Deposit Insurance Corporation (FDIC) to be collateralized with a perfected pledge of eligible collateral. Eligible collateral must be pledged in an amount equal to 102% of the amount of the deposits that exceed FDIC insurance. Sufficient collateral to cover total Commonwealth deposits in excess of the FDIC insured amount must be pledged and held in safekeeping by a custodian that is approved by and under the control of the Treasurer and Receiver – General.

Membership by a financial institution in the Depositors Insurance Fund (DIF) or the Share Insurance Fund (SIF) will be accepted by the Treasurer and Receiver – General's Office as alternative security, provided that the financial institution submits proof of membership in the DIF or the SIF.

Custodial Credit Risk – Business-Type Activities

The Institutions of Higher Education and their blended component units have investment policies that may vary by institution and blended component unit for custodial credit risk. Each institution carries deposits that are fully insured by the FDIC, as well as uninsured deposits. As of June 30, 2012, the bank balances of uninsured deposits totaled approximately $287 million.

Custodial Credit Risk – MSBA

The MSBA does not have a formal investment policy for custodial credit risk. The MSBA carries deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC) insurance, as well as deposits that are fully collateralized. As of June 30, 2012, all MSBA bank balances were fully protected against loss.

Interest Rate Risk – Non-Post Employment Benefit Trust Funds

Interest rate risk is the extent that changes in interest rates of debt investments will adversely affect the fair value of an investment. These investments include certain short–term cash equivalents, various long-term items and restricted assets by maturity in years. The Treasury cash portfolio minimizes the risk of the market value of securities falling due to changes in interest rates by maintaining a dollar-weighted average portfolio maturity of 60 days or less. The Treasury cash portfolio's assets are managed to maintain a dollar-weighted average life to maturity of 120 days or less.

During the fiscal year, the MMDT Cash Portfolio's dollar-weighted average maturity fluctuated from 31 to 54 days.

Investments in the MMDT Short Term Bond Fund (the Fund) are made in investment-grade securities as defined by national statistical rating agencies. The Commonwealth assesses risk for the Fund by using duration. Duration is the weighted maturity of the security's cash flows, where the present values of the cash flows serve as weights.

For the Short Term Bond Fund, the weighted average maturity during the fiscal year fluctuated from 2.9 to 3.0 years. As of June 30, 2012, investments in the MMDT Short Term Bond Fund had a fair value of $296 million and investment maturities ranging from less than one year to more than ten years and with approximately 6.2% of the investment's fair values maturing in less than 1 year, approximately 75.5% from one to five years, approximately 4.9% from six to ten years and approximately 13.4% more than ten years.

Interest Rate Risk – Business - Type Activities

As of June 30, 2012, the Institutions of Higher Education and their blended component units had debt investments stated at fair value of approximately $833 million and had investment maturities ranging from less than one year to more than ten years, with approximately 57.5% of the investment's fair values maturing in less than 1 year, approximately 21.1% from one to five years, approximately 9.3% from six to ten years, and approximately 12.1% more than ten years.

Interest Rate Risk - MSBA

The MSBA's investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from interest rates. As of June 30, 2012, the MSBA had approximately $226 million invested in a collateralized guaranteed investment contract and approximately $343 million invested in U.S. Treasury Bonds and Municipal Bonds. These investments are included in restricted cash and investments on the balance sheet. The guaranteed investment contract matures on August 15, 2030 while the U. S. Treasury Bonds and Municipal Bonds mature from 2019 to 2040. These investments exceed 5% of the MSBA's total investments.

Credit Risk –Primary Government

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commonwealth, exclusive of Pension Trust Funds, minimizes concentration of credit risk, the risk attributed to the magnitude of the investment in a single issuer. The Commonwealth's investment policy prohibits the Treasury from investing more than 5% of the total investment portfolio in any single financial institution or issuer, excluding various public entity securities and repurchase agreements. There are no restrictions on the amount that can be invested in public entity securities and the portfolio may be invested in U.S. Treasury and other Government Sponsored Enterprises (GSE's) obligations and repurchase agreements.

The Treasury cash portfolio is invested only in First Tier and Second Tier Securities as defined by rule 2A-7. The Treasury does not have any additional policies regarding credit ratings of investments. Credit ratings associated with the Commonwealth's investment in the MMDT Cash Portfolio ranged from P1 to P2, with approximately 91% rated P1 and approximately 9% rated P2 at fair value.

For the Short Term Bond Fund, investments were approximately 17.9% at AAA, approximately 22.5% from A to AA, approximately 16.1% BBB or below or unrated and approximately 43.5% held in US Government or Government Agency Obligations. Debt obligations issued or guaranteed by the U. S. Government, U. S. Government Agencies, and U. S. Government – sponsored enterprises are deemed to carry a AAA rating.

For the Institutions of Higher Education and their blended component units presented in the Business-Type Activities, fair values of debt investments were approximately $445 million at AAA, approximately $228 million from AA+ to A- and approximately $160 million either unrated or BBB+ or less.

Credit Risk - MSBA

The MSBA's investment policy generally limits investments in fixed income products with institutions that have an investment grade rating as determined by one of the nationally recognized rating agencies. The MSBA's policy requires issuers of investment contracts to be rated AA or above by at least two of the nationally recognized rating agencies or A with pledged collateral equal to 102% of the principal balance.

As of June 30, 2012, the guaranteed investment contracts were not rated; however, the issuer was rated AA+ or equivalent. As of June 30, 2012, the MSBA's investments in municipal bonds were rated AA+ or above.

Interest Rate Risk – PRIT Funds

As pension trust funds have a longer investment horizon than many of the Commonwealth's other investments, the PRIM Board manages PRIT's exposure to fair value loss arising from movements in interest rates by establishing duration guidelines with its debt securities investment managers. The guidelines with each individual manager require that the duration of the domestic debt investment portfolio be within a specified percentage or number of years of the duration band of the appropriate benchmark index. For emerging markets fixed income investments, the portfolio must have a duration with a band ranging from three to eight years.

Effective duration is a measure of a fixed income investment's exposure to fair value changes arising from changes in interest rates. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows. These assumptions take into consideration factors indicative of investments highly sensitive to interest rate changes, including callable options, prepayments and other factors.

The PRIM Board compares the effective duration of a manager's portfolio to the Barclays Capital Aggregate Index for domestic core "fixed income" securities and the Merrill Lynch® High Yield Master II Index for domestic high yield fixed income securities. The PRIT Fund had fixed income and short-term investments totaling approximately $12.136 billion at fair value with an effective weighted average duration range from 0.08 to 10.37 years at June 30, 2012.

Credit Risk – PRIT Funds

The PRIM Board establishes credit investment guidelines with each of its fixed income securities investment managers in establishing a diversified portfolio. These guidelines vary depending on the manager's strategy and the role of its portfolio to the overall diversification of the PRIT fund. The guidelines for the PRIT Fund's core fixed income portfolio establish the minimum credit rating for any security in the portfolio and the overall weighted average credit rating of the portfolio. The guidelines for the PRIT Fund's high yield, fixed income portfolio establish a market value range of securities to be held with a specific minimum credit rating and the overall weighted average credit rating of the portfolio.

Credit risk for derivative instruments held by PRIT results from counterparty risk. PRIT is exposed to credit risk resulting from counterparties being unable to meet their obligations under the terms of the derivative agreements. The weighted average quality rating of the debt securities portfolio, excluding pooled investments, investments explicitly backed by the United States Government and other nonrated investments was AA- at June 30, 2012.

Credit ratings associated with the Commonwealth's investment in the PRIT Fund ranged from AAA to A- investments with a fair value of approximately $3.158 billion, BBB+ to B- investments with a fair value of approximately $2.326 billion, $173 million rated CCC+ to D, $3.980 billion are unrated and the remaining $2.499 billion are investments that are explicitly backed by the U. S. Government.

Foreign Currency Risk – PRIT Funds

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. The Treasury does not have a policy regarding foreign currency risk for the Pension Trust. The PRIM Board manages PRIT's exposure to foreign currencies by hedging a percentage of PRIT's non-U.S. dollar denominated investments through forward foreign currency contracts. The PRIT Fund's investments in foreign currency denominated investments as of June 30, 2012 were approximately $198 million in cash and investments, $10.123 billion in equities, $1.491 billion in fixed income investments and $1.136 billion in private equity investments. An additional $2.564 billion is invested in international investments denominated in U. S. dollars.

Concentration of Credit Risk – PRIT

The PRIM Board manages PRIT's exposure to concentration of credit risk by establishing guidelines with each investment manager that limit the percent of investment in any single issue or issuer.

MMDT and PRIT have no investments at fair value that exceed 5% of PRIT's net assets held in trust for pool participants as of June 30, 2012.

A. DERIVATIVE INSTRUMENTS

PRIT may invest in derivative transactions. In accordance with GASB Statement No 53, *Accounting and Financial Reporting for Derivative Instruments,* PRIT's derivatives are accounted for as investment derivatives and are reported at fair value.

Forward Currency Contracts

PRIT enters into forward currency contracts to hedge the exposure to changes in foreign currency exchange rates on foreign portfolio holdings. The market value of the contracts will fluctuate with changes in currency exchange rates. Risks may arise from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

The contracts are marked-to-market daily and the change in market value is recorded as an unrealized gain or loss by PRIT.

When a contract is closed, PRIT records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

As of June 30, 2012, PRIT had open foreign exchange contracts with combined net unrealized gains of approximately $14 million with various delivery dates.

Further information on derivative instruments can be found in the notes to PRIT's basic financial statements.

Futures Contracts

PRIT may purchase and sell financial futures contracts to hedge against changes in the values of securities the fund owns or expects to purchase.

Upon entering such contracts, they must pledge to the broker an amount of cash or securities equal to a percentage of the contract amount.

The potential risk is that the change in the value of futures contracts primarily corresponds with the value of underlying instruments, which may not correspond to the change in value of the hedged instruments. In addition, there is a risk that PRIT may not be able to close out its future positions due to a non-liquid secondary market. Risks may also arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

PRIT may also invest in financial futures contracts for non-hedging purposes.

PRIT held contracts outstanding at June 30, 2012 with various expirations from FY13 to FY16. These contracts are for cash and cash equivalents, fixed income, equities and commodities. A portion of the contracts were short contracts. The aggregated notional exposure amount as of June 30, 2012 was approximately $1.303 billion with a fair value of $1.342 billion, yielding an unrealized net gain of approximately $39 million.

Payments are made or received by PRIT each day, depending on the daily fluctuations in the value of the underlying security and are recorded as unrealized gains or losses. When the contracts are closed, the PRIT Fund recognizes a realized gain or loss.

Swaps – PRIT

PRIT has entered into swap agreements to gain exposure to certain markets and actively hedge other exposures to market and credit risk. The swap contracts are reported at fair value, which represents their estimated liquidation values (costs). PRIT either receives cash from the swap counterparties or pays the swap counterparties monthly depending on whether the fixed-rate interest is lower or higher than the variable-rate interest. Changes in fair value are included as part of investment income.

As of June 30, 2012, PRIT had contracts in effect with an aggregated notional amount of approximately $620 million to

various investment banks that had maturity dates from FY13 to FY46. The contracts have an aggregate fair value gain of approximately $3 million. PRIT values these contracts using standard methods and techniques including the discounted cash flow analysis and option pricing models.

PRITs counterparty exposure was with various major investment companies with ratings ranging from AA- to A- and various other banks with other ratings. Open swap contracts as of June 30, 2012 were as follows (amounts in thousands):

		2012					
		Interest Rate Swaps		Credit Default Swaps		Total Return Swaps	
Counterparty	Credit Ratings	Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value
Goldman Sachs International	A-	$ -	$ -	$ 18,240	$ (216)	$ -	$ -
Chicago Mercantile Exchange Inc.	AA-	157,950	(564)	107,852	2,722	-	-
Deutsche Bank Securities Inc.	A+	41,900	(155)	47,394	669	23,310	469
Bank of America Corp	A-	-	-	19,108	(1,400)	-	-
Citibank	A-	-	-	42,920	482	-	-
Barclays Global Investors	A	6,480	61	36,788	563	-	-
Morgan Stanley Capital	A-	980	21	29,600	192	-	-
UBS Financial Services, Inc.	A	1,734	58	29,945	(136)	-	-
All others	Various	1,631	322	53,866	(108)	-	-
		$ 210,675	$ (257)	$ 385,713	$ 2,768	$ 23,310	$ 469

B. DISCRETELY PRESENTED COMPONENT UNIT INVESTMENTS

Component units invest in derivative transactions. Detailed information on those transactions is found in the notes to the basic financial statements for those component units.

3. RECEIVABLES

Taxes, federal reimbursements, loans and other receivables are presented in the statement of net assets, exclusive of amounts due from cities and towns and component units as follows (amounts in thousands):

Primary Government	Taxes Receivable	Federal Grants and Reimbursements	Loans	Other Receivables	Total
Governmental activities:					
Gross receivables	$ 5,691,771	$ 1,921,909	$ 122,171	$ 1,704,138	$ 9,439,989
Less: allowance for uncollectibles	(2,131,960)	(28,462)	-	(1,327,188)	(3,487,610)
Receivables, net of allowance for uncollectibles	3,559,811	1,893,447	122,171	376,950	5,952,379
Less: current portion	(2,789,504)	(1,824,894)	(7,378)	(326,393)	(4,948,169)
Noncurrent receivables	$ 770,307	$ 68,553	$ 114,793	$ 50,557	$ 1,004,210
Business-Type activities:					
Gross receivables	$ -	$ 88,951	$ 59,394	$ 710,503	$ 858,848
Less: allowance for uncollectibles	-	(1,129)	(2,527)	(49,805)	(53,461)
Receivables, net of allowance for uncollectibles	-	87,822	56,867	660,698	805,387
Less: current portion	-	(87,822)	(44,237)	(603,224)	(735,283)
Noncurrent receivables	$ -	$ -	$ 12,630	$ 57,474	$ 70,104

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS BETWEEN FUNDS

The purposes of interfund receivables, payables and transfers between funds vary by legislative authority. Transfers include the following: intergovernmental services, fringe benefit cost assessments, the year-end Stabilization Fund transfer, certain license fees collected by the registry of motor vehicles that fund various highway project initiatives, fund closure transfers, transfers from stabilization to fund current operations and various other transfers for operations, largely for institutions of higher education. Activity between funds reflected as due to/from primary government in the various statements is summarized as follows (amounts in thousands):

	General	Lotteries	Federal Grants	Other Governmental Funds	Total
Governmental funds:					
Transfers in:					
Debt service	$ -	$ -	$ -	$ 2,153,511	$ 2,153,511
Transfers in	2,068,886	-	-	1,810,259	3,879,145
Subtotal	2,068,886	-	-	3,963,770	6,032,656
Transfers out:					
Appropriations	(1,048,937)	-	-	(1,192)	(1,050,129)
Transfer of bond proceeds	-	-	-	(279,653)	(279,653)
Debt service	(1,020,223)	-	-	(1,133,288)	(2,153,511)
Transfers out	(1,116,192)	(1,074,930)	(115,670)	(1,398,526)	(3,705,318)
Subtotal	(3,185,352)	(1,074,930)	(115,670)	(2,812,659)	(7,188,611)
Total governmental funds	**$ (1,116,466)**	**$ (1,074,930)**	**$ (115,670)**	**$ 1,151,111**	**$ (1,155,955)**

Proprietary funds:	University of Massachusetts	State Universities	Community Colleges		Total
Transfers in:					
Transfers in from the general fund and other governmental funds	$ 722,995	$ 287,822	$ 318,965		$ 1,329,782
Transfers out:					
Transfers out to the general fund	(107,946)	(32,965)	(32,916)		(173,827)
Total proprietary funds	**615,049**	**254,857**	**286,049**		**1,155,955**
Net transfers in / (out) between funds	**$ (501,417)**	**$ (820,073)**	**$ 170,379**	**$ 1,151,111**	**$ -**

Due to/from component units on the Statement of Net Assets reflects a timing difference for a payment of approximately $38 million at year end.

Remaining receivables and payables between funds as of June 30, 2012 largely occur due to the timing of accruals and the funding of escrows. The University also reported unremitted benefits costs as of June 30, 2012. The amount due to the General Fund largely represents deficits funded by the General Fund. The following is a summary of receivables and payables between funds remaining as of June 30, 2012 (amounts in thousands):

Receivable Fund	**Payable Fund**	**Amount**
Governmental Funds:		
General	Federal Grants	$ 17,586
	Nonmajor Governmental Funds	82,196
Non-major Governmental Funds	Nonmajor Governmental Funds	92,742
Total Governmental Funds		**192,524**
Governmental Funds:	**Proprietary Funds:**	
General	University of Massachusetts	12,151
Total amounts due		**$ 204,675**

5. CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2012 were as follows (amounts in thousands):

Primary Government Governmental Activities	July 1, 2011 Beginning Balance	Increases	Decreases and Reclassifications	June 30, 2012 Ending Balance
Capital assets not being depreciated:				
Land	$ 766,834	$ 39,183	$ (4,181)	$ 801,836
Construction in process	737,232	171,708	(374,977)	533,963
Total capital assets not being depreciated	1,504,066	210,891	(379,158)	1,335,799
Capital assets being depreciated:				
Buildings	4,978,095	452,504	(72,298)	5,358,301
Machinery and equipment	948,008	87,461	(36,207)	999,262
Infrastructure non - central artery/tunnel project	279,791	28,641	-	308,432
Total capital assets being depreciated	6,205,894	568,606	(108,505)	6,665,995
Less, accumulated depreciation:				
Buildings	(2,716,701)	(106,657)	21,081	(2,802,277)
Machinery and equipment	(653,047)	(81,578)	14,370	(720,255)
Infrastructure non - central artery/tunnel project	(212,798)	(6,595)	-	(219,393)
Total accumulated depreciation	(3,582,546)	(194,830)	35,451	(3,741,925)
Total capital assets being depreciated, net	2,623,348	373,776	(73,054)	2,924,070
Governmental activity capital assets, net	$ 4,127,414	$ 584,667	$ (452,212)	$ 4,259,869
Business - Type Activities				
Capital assets not being depreciated:				
Land	$ 117,138	$ 2,536	$ (2,482)	$ 117,192
Construction in process	709,843	762,496	(299,826)	1,172,513
Historical treasures	863	15	-	878
Total capital assets not being depreciated	827,844	765,047	(302,308)	1,290,583
Capital assets being depreciated:				
Buildings	5,260,087	471,567	(12,181)	5,719,473
Machinery and equipment	978,889	51,823	(42,307)	988,405
Library collections, not including historical treasures	130,910	776	(9,512)	122,174
Total capital assets being depreciated	6,369,886	524,166	(64,000)	6,830,052
Less, accumulated depreciation:				
Buildings	(2,306,402)	(187,018)	4,690	(2,488,730)
Machinery and equipment	(709,770)	(64,236)	38,772	(735,234)
Library collections, not including historical treasures	(20,185)	(475)	345	(20,315)
Total accumulated depreciation	(3,036,357)	(251,729)	43,807	(3,244,279)
Total capital assets being depreciated, net	3,333,529	272,437	(20,193)	3,585,773
Business - type activity capital assets, net	$ 4,161,373	$ 1,037,484	$ (322,501)	$ 4,876,356
Total Primary Government capital assets, net	**$ 8,288,787**	**$ 1,622,151**	**$ (774,713)**	**$ 9,136,225**

Depreciation expense was charged to the various functions of governmental and business-type activities as follows (amounts in thousands):

Function:	Amount
General government	$ 42,725
Judiciary	30,062
Energy and environmental	16,850
Health and human services	49,234
Early elementary and secondary education	86
Public safety and homeland security	53,679
Housing and economic development	55
Labor and workforce development	2,139
Total depreciation, governmental activities	$ 194,830
University of Massachusetts	$ 163,369
State universities	62,087
Community colleges	26,273
Total depreciation, business-type activities	$ 251,729

6. SHORT-TERM FINANCING AND CREDIT AGREEMENTS

Massachusetts General Laws authorize the Treasurer to issue temporary notes in anticipation of revenue or bond financing. When this short-term borrowing does not meet long-term financing criteria, it is classified as a fund liability. Short-term borrowing may be issued as fixed rate notes or through a commercial paper program supported by bank liquidity facilities maintained by the Commonwealth.

A. *GENERAL FUND*

The balance of revenue anticipation notes (RANs) and commercial paper outstanding may fluctuate during a fiscal year, but all short-term borrowing for cash flow purposes must be reduced to zero by June 30. During FY12, the Commonwealth issued no commercial paper. In terms of short-term borrowing for cash flow purposes, the Commonwealth borrowed $1.2 billion by selling RANs in November 2011. All of the $1.2 billion in RANs were retired in April and May of 2012.

The following schedule details short–term financing for all funds for the fiscal year (amounts in thousands):

	Beginning Balance July 1, 2011	Issued / Drawn	Redeemed / Repaid	Ending Balance June 30, 2012
General Fund:				
Revenue anticipation notes	$ -	$ 1,200,000	$ (1,200,000)	$ -

B. *CREDIT FACILITIES*

During FY12, the Commonwealth maintained credit facilities to provide liquidity support for commercial paper notes totaling $400 million. The Commonwealth started FY12 with a total of three credit facilities to provide such liquidity support, each in the amount of $200 million. These facilities expire in periods at various times. In addition, the Commonwealth maintained standby bond purchase agreements for Variable Rate Demand Bonds sold from FY97 through FY06. As of June 30, 2012, these agreements totaled $1.740 billion.

7. LONG-TERM OBLIGATIONS

Section 1 of Article 62 of the Massachusetts Constitution empowers the State Legislature to borrow money on the credit of the Commonwealth for various public purposes. Under the state Constitution, the Commonwealth may pledge its credit to borrow money only by a vote of two-thirds of each house of the Legislature. Borrowed funds may be used for defense of the state or of the United States, and in anticipation of receipts from taxes or other sources, "any such loan to be paid out of the revenue of the year in which the loan is made". The Legislature may not in any manner allow the Commonwealth's credit to be given or loaned to or in aid of any individual, or of any private association, or of any corporation, which is privately owned or managed. The Constitution further provides that borrowed money shall not be expended for any other purpose than that for which it was borrowed or for the reduction or discharge of the principal of the loan.

Statutorily, the authority to borrow is delegated to the Massachusetts State Treasurer & Receiver General pursuant to Chapter 29 of the Massachusetts General Laws. Section 49 of Chapter 29 of the Massachusetts General Laws is the primary statute governing the issuance of Commonwealth debt and contains a number of provisions spelling out the process for the issuance of bonds.

The issuance of bonds to fund the Commonwealth's capital needs must be authorized by the Legislature. Pursuant to legislative authorizations to borrow, the Governor determines the amount and timing of any authorized borrowing to fund capital investments. At the request of the Governor, the State Treasurer & Receiver General borrows by issuing bonds to the public. The Governor approves the use of the bond proceeds by agencies to pay for authorized and budgeted capital projects.

Massachusetts General Law provides for the allocation of bond proceeds to bond authorizations and capital spending in arrears (as needed), as expenditures are made, or at the time of issuance of the bonds. In general, bond proceeds are primarily allocated to capital spending that has already occurred. When allocating in arrears, the allocation of segregated bond proceeds is a reimbursement to the General Fund.

Bond proceeds that are awaiting allocation are typically invested by the State Treasurer in the Commonwealth's primary investment vehicle, the Massachusetts Municipal Depository Trust (MMDT), which is structured similarly to a money market fund (for more information please see the notes on the Commonwealth's short-term investments). Bond proceeds are segregated from other funds until they are allocated to capital expenditures, a process that requires review by the Commonwealth's bond counsel.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including bonds and notes issued by it and all claims with respect hereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for the payment of principal or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, enacted to extend the time for payment or impose other constraints upon enforcement. The Commonwealth cannot file for bankruptcy under the United States Bankruptcy code.

As of June 30, 2012, the Commonwealth had issued two types of long-term debt obligations: general obligation bonds and special obligation bonds. General obligation bonds, which account for the large majority of outstanding Commonwealth bonds, are backed by the full faith and credit of the Commonwealth. Special obligation bonds, however, are bonds secured by all or a portion of a specific revenue source that are pledged to bondholders and are not general obligations of the Commonwealth. For these types of securities, bondholders rely on pledged revenue only for repayment of principal and interest.

The following is a summary of the Commonwealth's outstanding debt, exclusive of capital leases, (amounts in thousands):

Type of Bond	Amount Outstanding
General obligation bonds	$ 19,257,484
Special obligation bonds, including GANs	2,650,199
Outstanding Commonwealth bonds	21,907,683
MSBA debt	5,719,935
Total governmental activity debt	27,627,618
Less:	
Unamortized premiums and bond issuance costs on general obligation bonds	(405,946)
Unamortized premiums and bond issuance costs on special obligation bonds	(68,184)
Unamortized premiums on MSBA debt	(276,670)
Total governmental activity net of unamortized premiums debt	$ 26,876,818

The general obligation (GO) bonds listed in the table above include outstanding tax-exempt bonds, taxable bonds including Build America Bonds, College Opportunity Bonds, as well as debt assumed from former counties. The special obligation bonds listed above include outstanding tax-exempt and taxable bonds (including Build America Bonds and Recovery Zone Economic Development Bonds) secured by indentures that legally define the specific revenues pledged to bondholders. This includes outstanding bonds or notes secured by Federal Highway funds to be received by the Commonwealth, certain portions of the Commonwealth's motor fuel excise tax and Registry of Motor Vehicle fees, and dedicated taxes and fees levied in certain geographic areas of the state to support the Commonwealth's convention center facilities. As of June 30, 2012, there were five different special obligation bond programs with bonds outstanding. It should be noted that two of the five bond programs have closed liens, meaning, no additional new-money bonds will be issued under those specific special obligation bond indentures.

The following is a table of outstanding GO bonds, net of unamortized premiums and bond issuance costs by interest rate structure, that are outstanding as of June 30, 2012, (amounts in thousands):

General Obligation Bonds	Amount Outstanding	Percent of Total GO
Fixed rate bonds	$ 15,244,263	80.9%
Variable rate bonds	3,607,275	19.1%
Total	$ 18,851,538	100.0%

The following is a table of the different types of outstanding variable rate GO bonds, (amounts in thousands):

Variable Rate GO Bonds	Amount Outstanding	Percent of Total GO
Variable rate demand bonds	$ 1,340,275	7.1%
Auction rate securities	401,500	2.1%
CPI-index bonds	197,455	1.0%
LIBOR index bonds	845,795	4.5%
SIFMA index bonds	822,250	4.4%
Total	$ 3,607,275	

The following is a table of outstanding SO bonds, net of unamortized premiums and bond issuance costs by rate structure that are outstanding as of June 30, 2012, (amounts in thousands):

Special Obligation Bonds	Amount Outstanding	Percent of Total SO
Fixed rate bonds	$ 2,398,935	92.9%
Variable rate bonds	183,080	7.1%
Total	$ 2,582,015	100.0%

The following is a table of the different types of outstanding SO bonds (amounts in thousands):

Special Obligation Bonds	Amount Outstanding
Special obligation dedicated tax revenue bonds:	
Fixed rate convention center bonds	$ 557,125
CPI variable rate convention center bonds	86,590
Total convention center bonds	643,715
Special obligation revenue bonds:	
Fixed rate gas tax bonds	245,845
CPI variable rate gas tax bonds	96,490
Total Gas Tax Bonds	342,335
Special obligation revenue bonds:	
Accelerated bridge program	1,035,859
Special obligation federal highway grant anticipation notes and accelerated bridge program	628,290
Total special obligation bonds	2,650,199
Less: unamortized premiums and bond issuance costs, net	(68,184)
Outstanding special obligation principal	$ 2,582,015

A. *GENERAL OBLIGATION BONDS*

General Obligation Bonds are authorized and issued primarily to provide funds for the Commonwealth's five-year capital improvement program (CIP), including capital infrastructure projects throughout the state as well as Commonwealth-supported local government capital improvements. The CIP is primarily funded through the issuance of bonds that are sold by the State Treasurer & Receiver General. The Commonwealth borrows from the capital markets by selling GO bonds and notes pursuant to Chapter 29 of the Massachusetts General Laws. GO bonds are backed by the full faith and credit of the Commonwealth and are paid mainly from the Governmental Funds, to which debt service principal and interest payments are appropriated in the state's operating budget.

In addition to GO bonds issued to fund the state's capital needs, certain bonds are approved by the Legislature to be issued for specific programs. These bonds, known as College Opportunity Bonds, are issued pursuant to statute directly to the Massachusetts Educational Financing Authority for its pre-paid tuition program called the "U.Plan". As of June 30, 2012, the Commonwealth had approximately $139 million in "U. Plan" bonds (at accreted value) outstanding. Pursuant to statute, all of the outstanding bonds are variable rate bonds, Interest on the bonds is based on the percentage change in the consumer price index plus 2.0% together with current interest at the rate of 0.5%.

In terms of bond structure, the large majority of GO bonds have been sold as fixed rate obligations. As of June 30, 2012, approximately 80.9% of the Commonwealth's outstanding GO debt is in the form of fixed-rate bonds. The remaining 19.1% of outstanding GO debt is in the form of variable rate bonds – bonds whose rate of interest fluctuate based on market or market index changes. The outstanding GO variable rate debt consists of several different variable rate structures. For

example, most of the Commonwealth's outstanding variable rate debt are in the form of variable rate demand bonds or "VRDBs", which are long-term bonds whose interest rates re-set daily or weekly through an active remarketing process. Because these bonds provide bondholders with a "put" or tender feature enabling the bonds to be sold back to the Commonwealth at par at any time, they are supported by standby liquidity facilities provided by third-party commercial banks which require the applicable bank to purchase any bonds that are tendered by investors and not successfully remarketed. As of June 30, 2012, the Commonwealth had approximately $1.340 billion in outstanding VRDBs. This accounts for approximately 7% of total GO debt and approximately 37.2% of total GO variable-rate debt. All of these bonds are uninsured. As of June 30, 2012, none of the Commonwealth's outstanding VRDBs have been subject to failed remarketing and "put" back to the Commonwealth; consequently, there have not been any draws on any of the bank liquidity facilities.

The Commonwealth has also issued general obligation variable-rate debt in the form of auction-rate securities. Like VRDBs, these are long-term bonds whose interest rates are re-set at pre-determined, short-term intervals. Unlike VRDBs, these bonds do not provide bondholders with a "put" feature and therefore do not require a supporting credit facility from a commercial bank. The Commonwealth's outstanding auction-rate securities have long-term nominal maturities of over 20 years with interest rates re-set every seven days. A periodic "Dutch auction" process is designed to provide a mechanism of liquidity to bondholders, with bonds re-priced and traded in auctions managed by broker-dealers. Beginning in February 2008, however, and continuing through FY12, all of the Commonwealth's outstanding auction rate securities experienced auction failure on the days interest rates were to re-set, meaning there were insufficient bids from new investors to purchase the securities being offered for sale by existing bondholders. Upon auction failure, the interest rate paid to existing bondholders is the failure rate as specified in the bond documents. For the series of Commonwealth bonds whose auctions have experienced failed auctions (approximately $401 million in total outstanding debt obligations, including Commonwealth of Massachusetts General Obligation Bonds, Series 2000D, 2000E, 2000F, and 2000G), the failure rate is based on a multiple of the 7-day non-financial commercial paper rate as published by the Federal Reserve, with a maximum failure rate of 12%. The failed auctions have resulted in actual interest costs to the Commonwealth that were consistently below budgeted debt service levels of 5%.

The remaining outstanding GO variable-rate debt pays interest to bondholders based on certain indices. For example, as of June 30, 2012, the Commonwealth had approximately $197 million of bonds that pay interest based on the consumer price index (CPI); $846 million of bonds that pay interest based on the three-month London Interbank Offered Rate (LIBOR); and $822 million of bonds that pay interest based on the Securities Industry and Financial Markets Association (SIFMA) Index. These bonds make up approximately 1%, 4.5% and 4.4% of total outstanding general obligation indebtedness, respectively.

To fund the FY12 capital budget, the Commonwealth borrowed by issuing $1.728 billion in long-term general obligation bonds, $1.340 billion of which was for new-money needs, with the remainder for refunding already existing debt in two separate current fiscal year refunding transactions. The present value savings of these refunding transactions is immaterial to these financial statements.

MSBA Debt

As of June 30, 2012, the MSBA had outstanding approximately $5.720 billion of Dedicated Sales Tax bonds, plus approximately $277 million of unamortized premiums for the purpose of funding school construction and renovation projects. Coupons on the bonds range from approximately 3.2% to 5.7% and each series is payable semiannually with the latest maturity occurring in fiscal year 2042. The MSBA elected to issue the 2009 Series B Bonds as "Build America Bonds" pursuant to the American Recovery and Reinvestment Act of 2009 (ARRA). As a result, the MSBA is eligible to receive interest subsidy payments from the United States Treasury equal to 35.0% of the interest payable on the 2009 Series B Bonds. The MSBA elected to issue the 2010 Series A Bonds and 2011 Series A Bonds as "Qualified School Construction Bonds". As a result, the MSBA is eligible to receive interest subsidy payments from the United States Treasury equal to 100.0% of the interest payable on the 2010 Series A Bonds and the 2011 Series A Bonds.

B. *SPECIAL OBLIGATION BONDS*

Commonwealth Transportation Fund (CTF)

During FY12, the Commonwealth issued an additional $419 million in special obligation bonds for highway construction purposes under the Commonwealth's Accelerated Bridge Program, secured by Commonwealth motor fuels taxes and Registry of Motor Vehicle fees. The new bonds are secured by a senior lien on 14.1085 cents of the total 21 cent per gallon

gasoline tax, the full 21 cents per gallon of special fuels taxes (comprised primarily of taxes on diesel fuel), the full 19.1% of the average price per gallon tax on liquefied natural gas, and all Registry of Motor vehicle fees deposited in the Commonwealth Transportation Fund. The bonds also have a subordinate lien on 6.86 cents of the 21 cent per gallon gasoline tax not included in the senior lien.

As of June 30, 2012, approximately $995 million in principal was outstanding on the Accelerated Bridge Program bonds and approximately $733 million of interest (net of the federal subsidy) was expected to be paid through maturity. The bonds mature from FY13 to FY41.

Other special obligation bonds for highway construction purposes issued prior to FY12 are secured by a pledge of 6.86 cents of the 21 cents per gallon gasoline tax. As of June 30, 2012, bonds secured by these pledged funds totaled approximately $337 million of principal and approximately $91 million in interest. These bonds mature from FY13 to FY23 and were sold in various series issued prior to FY12. Principal and interest paid during FY12 amounted to approximately $40 million and $20 million, respectively.

Convention Center Fund

Chapter 152 of the Acts of 1997, as amended, authorizes $694 million of special obligation bonds to be issued for the purposes of building a new convention center in Boston ($609 million), the Springfield Civic Center ($66 million) and the Worcester Convention Center ($19 million). The bonds are payable from monies credited to the Convention Center Fund created by such legislation, which include certain hotel tax receipts from hotels in Boston, Cambridge, Springfield and Worcester, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, a surcharge on sightseeing tours and cruises in Boston and sales tax receipts from certain hotels and other retail establishments in Boston, Cambridge and Springfield. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance, the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). As of June 30, 2012, taxes within the Convention Center districts support approximately $639 million of outstanding principal and approximately $492 million of interest on debts related to these Convention Centers. Taxes collected in FY12 were approximately $96 million, while debt service on the bonds was approximately $34 million.

C. *FEDERAL GRANT ANTICIPATION NOTES*

All federal highway reimbursements are dedicated to funding the principal portion only of federal grant anticipation notes issued in fiscal 1998, 1999, 2001, 2011 and refunding notes in fiscal 2003 and fiscal 2011. As of June 30, 2012, total principal remaining to be paid on (GANs) is approximately $610 million. Maturities are from FY13 through FY23. Debt service paid during FY12 was approximately $193 million.

The legislation authorizing such notes contains a statutory covenant that as long as any such grant anticipation notes remain outstanding, the Commonwealth will deposit all federal highway reimbursements into the Grant Anticipation Note Trust Fund, to be released to the Commonwealth once all the debt service and reserve funding obligations of the trust agreement securing the grant anticipation notes have been met. If the United States Congress reduces the aggregate amount appropriated nationwide to less than $17.1 billion and debt service coverage with respect to the notes falls below 120%, then the legislation further pledges an additional 10¢ per gallon of existing motor fuel tax collections will be deposited into the trust fund, to be used for debt service on the notes, subject to legislative appropriation. Principal amortization of the notes began in fiscal 2006 and will continue through fiscal 2015. Under the trust agreement securing the notes, aggregate annual debt service on grant anticipation notes may not exceed $216 million unless the rating agencies rating the notes confirm that exceeding $216 million in annual debt service will not cause them to withdraw or reduce their credit ratings. Such notes and the interest thereon are secured solely by the pledge of federal highway construction reimbursement payments and by a contingent pledge of certain motor fuels excises. In practice, the interest on such notes has been paid from Commonwealth appropriations.

D. *THE BUILD AMERICA BOND PROGRAM*

As part of the federal America Recovery and Reinvestment Act (ARRA) in 2009, municipal issuers were authorized to issue taxable bonds to fund new capital expenditures and receive an interest rate subsidy from the U.S. Treasury. As part of the temporary Build America Bond (BABs) program, issuers including the Commonwealth issued taxable bonds in calendar

2009 and 2010 in return for a subsidy from the federal government equal to 35% to 45% (depending on whether the proceeds are used for projects in economically distressed areas) of the interest costs on the bonds. Between the GO bond program and the special obligation bond programs, the Commonwealth issued a total of $2.791 billion in Build America Bonds and Recovery Zone Economic Development Bonds in six separate financings over the two year period of the temporary program. All of the bonds were issued as "direct pay to issuer", meaning that the interest rate subsidies would be paid to the Commonwealth from the U.S. Treasury and not pledged to bondholders. As of June 30, 2012, the expected interest rate subsidy to be received through final maturity of all of the bonds issued as part of this program totaled $962 million. The Commonwealth's repayment obligation to bondholders is based on the gross interest rate. From a budgetary perspective, the bonds' debt service is budgeted at the net-of-interest-rate- subsidy rate.

Given the interest rate subsidy from the U.S. Treasury and given market conditions at the time of the Commonwealth's BABs and sales, this program resulted in borrowings whose net interest costs will be significantly lower than the interest on traditional tax-exempt bonds. The BABs program expired on December 31, 2010.

E. ***INTEREST RATE SWAP AGREEMENTS – OBJECTIVES AND RISKS***

Over the last twenty years, the Commonwealth has periodically entered into interest rate swap agreements for the sole purpose of hedging changes in the interest rates on a portion of its outstanding variable rate bonds, taking advantage of the fact that these bonds, combined with interest rate swaps, generally result in lower interest costs than fixed-rate bonds. Of the Commonwealth's variable-rate debt outstanding of approximately $3.607 billion, approximately $3.306 billion were synthetically fixed via floating-to-fixed interest rate swap hedge agreements. The remaining variable-rate debt of approximately $300 million, or approximately 1.6% of the total outstanding general obligation debt, is un-hedged and, accordingly, floats with interest rates reset on a daily or weekly basis.

Under the terms of these floating-to-fixed rate hedge agreements, counterparties to the hedge agreements are obligated to pay the Commonwealth an amount equal to or approximately equal to the variable-rate interest payment to bondholders of the related bonds or an interest payment based on a market index. In return, the Commonwealth is obligated to pay counterparties a stipulated fixed rate. The floating rate payments received by the Commonwealth from its swap counterparties are used to offset the variable rate payments paid to bondholders. Only the net difference in interest payments is actually exchanged with the swap counterparty. The net payments made or received on these hedge agreements are reported as part of interest expense on the Commonwealth's basic financial statements. In all cases, the Commonwealth remains responsible for making interest payments to the variable rate bondholders.

Objective of the Interest Rate Swap Agreements

In connection with the issuance of variable rate GO refunding bonds in 1997, 1998, 2001, 2003, 2005, 2006, and 2007, the Commonwealth entered into interest rate swap hedge agreements with certain counterparties to hedge against the volatility of the interest rates on certain bonds whose interest costs were floating and not fixed. Additional swap agreements were entered into to hedge this same volatility on certain special obligation bonds, including the Commonwealth's Series 2005 Special Obligation Tax Revenue (Gas Tax) Bonds and the Series 2004 Special Obligation Dedicated Tax Revenue (Convention Center) Bonds. In addition, a floating-to-fixed rate swap agreement was novated or transferred to the Commonwealth from the Route 3 North Transportation Improvements Association (secured by Commonwealth Contract Assistance) in November 2008 after the lease revenue bonds associated with that swap experienced remarketing failure. The swap was assigned to a portion of the Commonwealth's previously unhedged variable rate bonds that were outstanding.

The intended effect of these agreements is essentially to fix the Commonwealth's interest rate obligations with respect to its variable-rate bonds in order to hedge or mitigate the Commonwealth's exposure to changes in interest rates on these bonds. For example, during a period when interest rates rise, the Commonwealth would receive higher payments from swap counterparties that would be used to offset higher payments to bondholders of the outstanding variable rate bonds. During a period when interest rates decline, the reduction in interest payments to bondholders would offset the higher payments made to swap counterparties. But in both scenarios, the net obligation of the Commonwealth is essentially fixed through the life of the swap and bonds. This allows the Commonwealth to finance its capital budget using floating rate bonds, which, combined with interest rate hedges, are less costly than fixed-rate bonds while hedging the risk of rising interest rates on those bonds to provide long-term budgetary and cash flow certainty. As of June 30, 2012, all of the Commonwealth's interest rate swaps were floating-to-fixed rate agreements and were deemed effective hedges pursuant to GASB Statement No. 53.

Terms of the Interest Rate Swap Agreements

The variable rate bonds and their related swap agreements have final maturities ranging from 2013 to 2037. The swaps' total notional value of approximately $3.306 billion effectively matches the par amount of the related variable-rate bonds.

Under the swap agreements, the Commonwealth pays the relevant counterparties fixed rates ranging from 3.412% to 5.250% and receives variable-rate payments equal to or approximately equal to the amount of variable rate payments the Commonwealth pays on the related variable-rate refunding bonds or a payment based on a market index. In some of the outstanding swap agreements, the Commonwealth receives an interest rate based on changes to Libor, the SIFMA index, or the CPI index. In other agreements, the floating payment received by the Commonwealth is precisely equal to the variable rate payment paid to bondholders based on an active remarketing of those bonds.

Credit Risk of the Interest Rate Swap Agreements

As of June 30, 2012, the Commonwealth is not exposed to credit risk because the swaps had a negative fair value. Should interest rates change and the fair value of the swaps become positive, the Commonwealth would be exposed to credit risk in the amount of the swap's fair value. All of the Commonwealth's counterparties are required to post collateral in certain circumstances, including credit rating downgrades. The Commonwealth is not required to post collateral in any of its existing swap agreements.

The chart below details the Commonwealth's outstanding swaps and related bond issuances (amounts in thousands except for percentages).

Associated Bond Issue	Notional Amounts Outstanding (thousands)	Terms: Effective Date	Terms: Fixed Rate Paid (Range)	Terms: Variable Rate Received	Fair value at June 30: 2012	Fair value at June 30: 2011	Change in Fair Value	Final Termination Date	Counterparty	Counterparty Credit Rating
General Obligation Bonds:										
Series 1997B	$ 131,076	8/12/1997	4.659%	Cost of Funds	$ (7,941)	$ (12,344)	$ 4,403	8/1/2015	Goldman Sachs Mit Mar Der Prod	Aa2 / AAA / NA
Series 1997B	87,384	9/1/2010	4.659%	SIFMA	(5,209)	(8,080)	2,871	8/1/2015	Sumitomo Mitsui Banking Corp	Aa3 / A+ / A
Series 1998A	152,958	9/17/1998	4.174%	Cost of Funds	(12,125)	(14,812)	2,687	9/1/2016	Citi Swapco, Inc	Aa2 / AAA / NR
Series 1998A, Series 2006A, Series 2000A, & Series 2000B	229,437	11/17/2008	4.174%	60% 1-Month LIBOR + 25 basis points	(17,577)	(22,466)	4,889	9/1/2016	Deutsche Bank AG	A2 / A+ / A+
Series 2000A	106,675	8/16/2007	3.942%	SIFMA - 3 basis points	(15,181)	(12,401)	(2,780)	8/1/2018	Merrill Lynch Cap Svcs	Baa2 / A- / A
Series 2000A	53,575	8/16/2007	3.942%	SIFMA - 3 basis points	(7,636)	(6,069)	(1,567)	8/1/2018	Bear Stearns Fin Prod / JP Morgan	Aa3 / A+ / A+
Series 2001B & C	496,225	2/20/2001	4.150%	Cost of Funds	(93,759)	(65,765)	(27,994)	1/1/2021	Morgan Stanley Capital Services	A2 / AAA / NA
Series 2003B	87,455	3/12/2003	4.500%	CPI-based formula	(1,946)	(1,068)	(878)	12/1/2014	Goldman Sachs Mit Mar Der Prod	A2 / AAA / NA
Series 2003B	10,000	10/8/2008	4.500%	CPI-based formula	(193)	(84)	(109)	12/1/2013	Deutsche Bank AG	A2 / A+ / A+
Series 2006B, Series 2000D	294,000	4/2/2009	4.515%	67% 3-MonthLIBOR	(113,553)	(70,852)	(42,701)	6/15/2033	Barclays Bank PLC	A2 / A+ / A
Series 2006C	100,000	1/1/2007	3.73%-3.85%	CPI-based formula	(4,596)	(646)	(3,950)	11/1/2020	Citibank N.A.	A3 / A / A
Series 2007A	400,000	10/8/2008	4.420%	67% 3-Month LIBOR + 0.57%	(58,805)	(39,950)	(18,855)	5/1/2037	Barclays Bank PLC	A2 / A+/ A
Series 2007A (refunding)	414,130	10/8/2008	4.083%	67% 3-Month LIBOR + 0.55%	(95,773)	(53,448)	(42,325)	11/1/2025	Bank of NY Mellon	Aa1 / AA- / AA-
Series 2007A (refunding)	31,665	10/8/2008	3.936%	67% 3-Month LIBOR + 0.46%	(6,250)	(3,896)	(2,354)	11/1/2020	Deutsche Bank AG	A2 / A+ / A+
Series 2010A, 2011A & 2012A(refunding)	528,205	3/15/2005	3.412% - 4.004%	SIFMA	(113,203)	(57,029)	(56,174)	2/1/2028	Citibank N.A.	A3 / A / A
Subtotal	3,122,785				(553,747)	(368,910)	(184,837)			
Special Obligation Dedicated Tax Revenue Bonds										
Series 2004 (Convention Ctr)	28,863	6/29/2004	4.45% - 5.25%	CPI-based formula	(1,895)	(1,281)	(614)	1/1/2018	Goldman Sachs Cap Markets	A2 / A- / A
Series 2004 (Convention Ctr)	28,863	6/29/2004	4.45% - 5.25%	CPI-based formula	(1,938)	(550)	(1,388)	1/1/2018	JPMorgan Chase Bank	Aa3 / A+ / A+
Series 2004 (Convention Ctr)	28,864	6/29/2004	4.45% - 5.25%	CPI-based formula	(1,897)	(1,527)	(370)	1/1/2018	Bear Stearns / JP Morgan	A2 / A / A+
Series 2005A (Gas Tax)	96,490	1/12/2005	4.771% - 5.059%	CPI-based formula	(4,810)	(3,602)	(1,208)	6/1/2022	Merrill Lynch Cap Serv	Baa2 / A- / A
Subtotal	183,080				(10,540)	(6,960)	(3,580)			
Total	$ 3,305,865				$(564,287)	$(375,870)	$ (188,417)			

Fair value of the Interest Rate Swap Agreements

The aggregate fair value balance of interest rate swaps at June 30, 2012 is negative $564 million and is reflected on the statement of net assets as a liability for derivative instruments which is offset by deferred outflows from derivative instruments. The fair values of the interest rate swaps are estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. Because all of the interest rate swaps were deemed effective hedges, changes in fair value of the interest rate swaps during the fiscal year ended June 30, 2012 were recognized as deferred outflows resulting in no impact on the Statement of Activities.

If all the Commonwealth's swap agreements had been terminated as of the end of FY12, the Commonwealth would have been required to make a payment of this magnitude. Although the Commonwealth has the option of terminating its swap agreements at any time (and either make or receive any termination payment due), the Commonwealth's counterparties do not have such an option. Therefore, the Commonwealth would only have to make a payment of the amount estimated above if certain termination events occurred, as described herein. Based on the terms and provisions of the swap agreements and the Commonwealth's current bond ratings, an involuntary termination of the swap agreements due to an event of the Commonwealth is remote. In the case of a voluntary termination due to an event of a counterparty, the Commonwealth would likely seek to maintain the existing hedge by replacing that counterparty with another.

Basis and Market-Access Risk of the Interest Rate Swap Agreements

Because the terms on most of the interest rate swap hedge agreements require the Commonwealth's counterparties to make variable rate payments equal or approximately equal to those the Commonwealth makes on the related variable rate bonds, the Commonwealth is not subject to significant basis risk as a result of the terms of these agreements. Under certain circumstances, such as a downgrade of the credit rating of the bonds being hedged or the enactment of tax-related legislation which causes the related bonds to trade differently, certain of the swap agreements provide that the Commonwealth's counterparties, may, at their option, pay a variable rate that is based on one or more market indices such as LIBOR or the SIFMA swap index. Under these circumstances, the Commonwealth would be subject to basis risk if these indices varied from the basis for the variable rates that were paid to bondholders that were determined for the Commonwealth's variable-rate demand bonds through the associated remarketing process. For certain other interest rate swap agreements, the variable rate on the swap is based on a market index that differs from the variable rate on the hedged bonds, which is generally remarketed or auction rate. The Commonwealth is subject to basis risk on these agreements.

A majority of the swap contracts have the same maturity dates and amortizations as the related bonds. For two of the swap agreements, the underlying bonds have maturity dates that come due before the termination date of the associated swaps. This applies to the 2006B and 2000D bonds being hedged by the $294 million hedge agreement with Barclays and the 2010A bonds being hedged by the $528 million swap with Citibank NA. The Commonwealth's stated debt plan is to extend the underlying variable rate bonds to match the terms and amounts of the associated swaps. If the Commonwealth is unable to extend the underlying variable rate bonds or identify other variable rate bonds the swaps may hedge, the Commonwealth would be required to make net settlement payments on the swaps without the offsetting effects of changes in variable rate bond settlement payments.

Termination Risk of the Interest Rate Swap Agreements

The swap agreements are based on the International Swap Dealers Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The swap agreements include termination events additional to those in the standard ISDA master agreement based on credit ratings. The swap agreements are not otherwise subject to termination except at the Commonwealth's option. The swap agreements require that the Commonwealth's counterparties maintain certain ratings levels. If they fail to maintain such ratings, the Commonwealth would have the option to terminate the related swap agreement and receive or pay a termination payment depending on the interest rates at the time. Similarly, the Commonwealth is required to maintain certain credit ratings under the agreements, generally 'BBB-' or above, well above the current credit rating of 'AA+' (based on long-term ratings assigned by Standard & Poor's). If the Commonwealth's rating fell below the defined threshold levels, the Commonwealth's counterparties would have the option to terminate the related swap agreements or for certain agreements choose to make variable rate payments based on a market

index (instead of the actual bond rate) which would subject the Commonwealth to basis risk, as previously described. If one or more of the swap agreements were terminated, then the related variable rate bonds would no longer be hedged and the Commonwealth would no longer be paying a synthetic fixed rate with respect to the bonds. In addition, if at the time of termination, the swap had a negative fair value, the Commonwealth would incur a loss and would be required to settle with the related counterparty or counterparties at the swaps' fair market values. However, to avoid a termination payment and to maintain the interest rate hedge, when the terminating event is an event of the counterparty, the Commonwealth would likely seek to replace counterparties to the swap agreement. Based on the terms and provisions of the swap agreements and the Commonwealth's current bond ratings, an involuntary termination of the swaps due to an event of the Commonwealth is remote.

F. *OUTSTANDING SWAPPED DEBT*

Security for Interest Rate Swap Agreements

Under legislation approved by the Governor on August 11, 2008, scheduled, periodic payments to be made by the Commonwealth pursuant to swap agreements in existence on August 1, 2008 or entered into after such date shall constitute general obligations of the Commonwealth for which its full faith and credit is pledged.

Future bond interest payments are calculated using rates applicable to the scheduled payment nearest to June 30, 2012 for variable rate bonds. The net swap payments are calculated by subtracting the projected future variable rate interest payment per the swap agreement from the projected future fixed rate payment per the swap agreement. Projected future variable rate payments on the swap agreements are based on variable rates applicable to the scheduled payment nearest to June 30, 2012. The actual amount of variable rate interest paid to bondholders and net swap payments made to counterparties are affected by changes in variable interest rates, changes in inflation (CPI), as well as changes in the London Interbank Offered Rate (LIBOR) and the Securities Industry and Financial Markets Association (SIFMA) floating rate indicies. Changes in the amounts paid to bondholders versus amounts paid to counterparties are largely offsetting.

Debt service requirements to maturity for variable-rate bonds hedged by interest rate swap agreements and projected future net settlement payments on interest rate swap agreements at June 30, 2012 are provided below (amounts in thousands):

Fiscal Year Ending June 30	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2013	$ 195,640	$ 26,817	$ 107,286	$ 329,743
2014	152,430	25,323	101,815	279,568
2015	240,930	22,435	95,126	358,491
2016	252,485	19,898	87,702	360,085
2017	349,585	18,326	78,851	446,762
2018-2022	963,665	61,402	290,353	1,315,420
2023-2027	772,340	23,311	135,465	931,116
2028-2032	219,615	10,269	50,365	280,249
2033-2037	159,175	3,281	12,577	175,033
Total	$ 3,305,865	$ 211,062	$ 959,540	$ 4,476,467

Business - Type Activities – Swapped Debt

The University System has various swaps. At June 30, 2012, the fair value liability of the universities' outstanding interest rate swaps was $106 million.

For financial reporting purposes, long-term debt is carried at its face value. Unamortized discounts and premiums are shown separately. For capital appreciation bonds, the outstanding amount represents total principal and accreted interest to be repaid.

Component Unit-Swapped Debt

At June 30, 2012, the majority of interest rate swaps outstanding are held by MassDOT, which in aggregate have a negative fair value of approximately $615 million. For complete details, see separate MassDOT financial statements.

G. *OUTSTANDING LONG-TERM DEBT AND CHANGES IN LONG TERM DEBT*

The amount of long-term debt authorized but unissued is measured in accordance with the statutory basis of accounting. Only the net proceeds (exclusive of discount and costs of issuance) are deducted from the total authorized by the Legislature.

Long-term debt outstanding (excluding unamortized premiums, discounts and issuance cost) and debt authorized and unissued at June 30, 2012 is as follows (amounts in thousands):

Purpose	Bonds Outstanding	Fiscal Year Maturities	Authorized and Unissued
GANs	$ 610,385	2013-2023	$ -
Capital projects:			
General	8,355,581	2013-2042	8,536,427
Highway	10,313,368	2013-2042	5,337,958
Local aid	1,515,519	2013-2038	19,084
Other	638,700	2015-2034	-
Subtotal	20,823,168		13,893,469
Subtotal - governmental activities debt (exclusive of MSBA)	$ 21,433,553		$ 13,893,469
MSBA debt	5,443,265		
Governmental activities debt	$ 26,876,818		

Interest rates on the Commonwealth's debt outstanding at the end of FY12 ranged from 0.5% to 6.6%.

Changes in long-term debt outstanding (excluding discount and premium) and bonds authorized - unissued for the year ended June 30, 2012 are as follows (amounts in thousands):

	Governmental Funds Debt - Primary Government	MSBA	Governmental Funds Bonded Debt	Authorized Unissued
Balance July 1, 2011	$ 20,875,055	$ 4,395,390	$ 25,270,445	$ 15,870,432
Plus: Increases in bonds authorized	-	-	-	200,135
Less: Authorizations deauthorized	-	-	-	(26,502)
General and special obligation bonds:				
Proceeds, as defined as principal, premium less discount and issuance costs	2,309,577	1,234,562	3,544,139	(2,150,596)
Less: Net premium	(161,575)	(92,182)	(253,757)	-
Less: Principal on refunded bonds	(387,410)	-	(387,410)	-
Less: Bonds retired	(1,202,094)	(94,505)	(1,296,599)	-
Outstanding debt June 30, 2012	$ 21,433,553	$ 5,443,265	$ 26,876,818	$ 13,893,469

Business - Type Activities – Colleges and University Debt

Building authorities related to the University of Massachusetts and the state universities have issued bonds for construction of higher education facilities and equipment. Such bonds are guaranteed by the Commonwealth in an aggregate amount not to exceed $200 million. The bond agreements generally provide that revenues from student fees are pledged as collateral on the bonds and establish bond reserve funds, bond funds, and maintenance reserve funds. The University of Massachusetts and state universities have also entered into various loan agreements as participants in the Massachusetts Health and Educational Facilities Authority's (MHEFA) ongoing capital asset program to finance construction projects and equipment.

At June 30, 2012, debt service requirements to maturity for principal and interest are as follows (amounts in thousands):

	Governmental Activities					Business - Type Activities	
	Excluding MSBA Debt		MSBA Debt			Revenue Obligation	
Fiscal Year Ended June 30	Principal	Interest *	Principal	Interest	Interest subsidies	Principal	Interest
2013	$ 1,621,527	$ 916,103	$ 108,165	$ 268,982	$ (24,213)	$ 101,073	$ 95,959
2014	1,525,387	864,580	118,490	263,923	(24,213)	110,314	93,020
2015	1,442,269	802,006	131,140	258,579	(24,213)	110,920	89,351
2016	1,401,031	740,357	115,375	252,040	(24,213)	117,019	85,624
2017	1,023,931	684,567	133,920	246,254	(24,213)	118,286	81,733
2018 - 2022	5,196,458	2,703,027	746,845	1,125,529	(121,065)	645,461	345,737
2023 - 2027	4,072,038	1,558,773	915,460	935,470	(121,065)	677,817	246,910
2028 - 2032	3,037,897	755,218	1,320,740	639,587	(55,009)	660,357	151,632
2033 - 2037	1,354,565	305,507	1,077,260	341,607	(29,065)	521,443	68,837
2038 - 2042	758,450	64,452	775,870	66,389	(5,093)	278,801	11,903
2043 - 2047	-	-	-	-	-	23,183	-
2048 - 2052	-	-	-	-	-	5,715	-
Total long - term debt	21,433,553	9,394,590	5,443,265	4,398,360	(452,362)	3,370,389	1,270,706
Less: current portion	(1,621,527)	(916,103)	(108,165)	(268,982)	24,213	(101,073)	(95,959)
Long - term debt	$ 19,812,026	$ 8,478,487	$ 5,335,100	$ 4,129,378	$ (428,149)	$ 3,269,316	$ 1,174,747

*for all variable rate interest not hedged by swap agreements the budgeted interest rate is 5%

H. *PRIOR DEFEASANCE*

In prior years, the Commonwealth defeased certain general and special obligation bonds by purchasing securities from the proceeds of advance refunding bonds or from surplus operating funds and placing them in irrevocable trusts to provide for all future debt service payments on the defeased bonds. The trust account assets and the liabilities for the defeased bonds are not included in the financial statements. As of June 30, 2012, approximately $4.4 billion of bonds outstanding from advance refunding activities in prior fiscal years is considered defeased.

I. *STATUTORY DEBT LIMIT*

The Massachusetts General Laws establish limits on the amount of direct debt outstanding. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual capital spending. As most recently amended in July and August, 2012, the law sets a fiscal 2012 limit of $17.070 billion and provides that the limit for each subsequent fiscal year is to be 105% of the previous year's limit. Outstanding debt subject to the limit at June 30, 2012 was approximately $16.713 billion.

For purposes of determining compliance with the limit, outstanding direct debt is defined by statute to include general obligation bonds at the amount of their original net proceeds. It excludes BANs, discount and issuance costs, if any, special obligation bonds, GANs, refunded bonds, certain refunding bonds, debt issued by counties, debt issued in conjunction with the MBTA Forward Funding, certain Central Artery / Tunnel debt and debt issued for the SMART program. The amounts excluded from the debt limit are as follows (amounts in thousands):

	Debt Outstanding
Statutory debt June 30, 2012	$ 21,907,683
Less amounts excluded:	
Premium and issuance cost	(474,130)
Special obligation principal	(976,245)
Accelerated bridge program	(995,385)
GANs principal	(610,385)
County debt assumed	(75)
MBTA forward funding	(207)
SMART bonds	(795,009)
Central artery/tunnel	(1,342,841)
Outstanding direct debt	$ 16,713,406

J. *ADMINISTRATION DEBT LIMIT*

During fiscal year 2009, the administration announced a policy that sets the annual borrowing limit at a level designed to keep debt service at a maximum of 8% of budgeted revenues. For this purpose, debt service includes principal and interest payments on all general obligation debt, special obligation gas tax debt, interest on federal grant anticipation notes, general obligation contract assistance payment obligations and budgetary contract assistance payment obligations on certain capital lease financings. Debt of the Massachusetts School Building Authority and of the Massachusetts Bay Transportation Authority that is supported by the portion of the sales tax legally dedicated to such entities is not included for purposes of this analysis, as the Commonwealth is not liable for such debt; similarly, the sales tax revenues legally dedicated to such entities are not included in the budgeted revenue projections.

In addition to keeping debt service at a maximum of 8% of budgeted revenues, the debt management policy limits future annual growth in the bond cap to not more than $125 million through fiscal 2012. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels.

The Administration will treat all debt and debt-like obligations of the Commonwealth as subject to the bond cap for purposes of developing the annual capital budget, except in limited circumstances when there is a sound policy justification for not including a particular debt issue. Debt may be excluded from the bond cap, for example, where there is a new, dedicated source of project-related revenues supporting the payment of debt service on such debt; in such cases, the dedicated revenue would also be excluded from projected budgeted revenues for purposes of determining the bond cap as described above.

The following table shows the annual bond cap, the resulting total annual debt service payment obligations and debt service as a percentage of budgeted revenues.

Bond Cap (in thousands except for percentages)

	Fiscal 2012
Bond cap as approved by the Governor……	$ 1,898,165
Total annual debt service obligations……	2,128,670
Budgeted revenue……	33,578,853
Debt service as % of budgeted revenues……	6.3%

K. *CHANGES IN LONG-TERM LIABILITIES*

The following table summarizes changes in long-term liabilities for both governmental activities and business-type activities (amounts in thousands):

Changes in Long Term Liabilities - Governmental Activities: Description	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Tax refunds and abatements payable	$ 809,958	$ 846,797	$ 809,958	$ 846,797	$ 846,797
Other long-term obligations:					
Compensated absences	479,874	503,974	479,874	503,974	327,581
Claims and judgments	40,000	40,000	40,000	40,000	-
Prizes payable	1,463,048	200,641	277,814	1,385,875	-
School construction grants payable	2,324,917	137,447	568,718	1,893,646	410,736
Retirement system pension obligations	1,199,361	1,587,947	1,368,414	1,418,894	-
Post employment benefit obligations	2,691,000	1,313,000	558,000	3,446,000	-
Environmental remediation liability	174,213	79,090	12,542	240,761	8,280
Other liabilities	4,169,910	41,067,869	41,201,168	4,036,611	3,748,400
Total other long-term obligations	12,542,323	44,929,968	44,506,530	12,965,761	4,494,997
Liability for derivative instruments	375,870	564,287	375,870	564,287	-
Bonded Debt:					
Bonds and notes payable - non MSBA	20,875,055	2,148,002	1,589,504	21,433,553	1,621,527
Unamortized bond and note premiums - non MSBA	335,078	157,890	18,838	474,130	40,785
Deferred loss on refunding	(46,142)	5,008	(4,100)	(37,034)	(6,585)
MSBA Bonds and notes payable excluding premium	4,395,390	1,142,380	94,505	5,443,265	108,165
Unamortized bond and note premiums - MSBA	195,522	98,634	17,486	276,670	18,635
Other financing arrangements:					
Capital leases	60,975	4,115	4,633	60,457	10,248
Total bonded debt and other financing arrangements	25,815,878	3,556,029	1,720,866	27,651,041	1,792,775
Long-term liabilities, governmental activities	**$ 39,544,029**	**$ 49,897,081**	**$ 47,413,224**	**$ 42,027,886**	**$ 7,134,569**

Changes in Major Long Term Liabilities - Business - Type Activities: Description	Beginning Balance*	Additions	Deletions	Ending Balance	Due Within One Year
Other long-term obligations:					
Compensated absences	$ 186,762	$ 26,737	$ 20,868	$ 192,631	$ 131,373
Environmental remediation liability	1,644	-	174	1,470	-
Total other long-term obligations	188,406	26,737	21,042	194,101	131,373
Bonded Debt:					
Bonds and notes payable, including Foundations and MSCBA	3,265,973	388,427	284,011	3,370,389	101,073
Other financing arrangements:					
Capital leases	31,105	767	8,545	23,327	6,950
Total bonded debt and other financing arrangements	3,297,078	389,194	292,556	3,393,716	108,023
Long-term liabilities, business - type activities	**$ 3,485,484**	**$ 415,931**	**$ 313,598**	**$ 3,587,817**	**$ 239,396**

*as restated

Governmental long-term liabilities, other than debt, are typically liquidated by the General Fund.

Discretely Presented Component Units – The change in bonds and notes outstanding at June 30, 2012, net of unamortized discounts and premiums and compensated absences are as follows (amounts in thousands):

Discretely Presented Component Units	Interest Rates	Maturities	July 1, 2011 Beginning Balance	Increases	Decreases	June 30, 2012 Ending Balance	Due Within One Year	Long Term
Major component units:								
MassDOT	0.00 - 7.00%	2011-2041	$ 8,010,853	$ 595,894	$ 539,253	$ 8,067,494	$ 587,396	$ 7,480,098
MWPAT	1.00 - 6.375%	2000-2040	3,688,009	415,444	463,050	3,640,403	172,305	3,468,098
Nonmajor component units	1.00 - 6.50%	2008-2034	571,179	73,519	20,139	624,559	28,772	595,787
Total bonds and notes payable			12,270,041	1,084,857	1,022,442	12,332,456	788,473	11,543,983
Compensated absences, net			44,623	6,960	2,795	48,788	26,461	22,327
Total long term liabilities			$ 12,314,664	$ 1,091,817	$ 1,025,237	$ 12,381,244	$ 814,934	$ 11,566,310

Further information on debt is found in the notes to the basic financial statements for the various component units.

8. INDIVIDUAL FUND DEFICITS

Certain funds within the Governmental Fund Type had fund deficits at June 30, 2012. None of these funds were in deficit due to finance-related contractual provisions and were allowed to be in deficit by General Law. The amounts are as follows (amounts in thousands):

Other Governmental Funds	Amount
Other Special Revenue Funds:	
Medical security trust fund	$ 33,673
Government land bank fund	35,033
General capital projects fund	190,940
Highway capital projects fund	120,453
Other Capital Project Funds:	
Federal highway construction program capital projects fund	41,802
Capital improvement and investment trust fund	135

Some of the funds above are consolidated within supplementary information. The Commonwealth may fund these deficits with appropriations, or in the case of capital funds, proceeds from bond issuances or payments from third parties.

9. RETIREMENT AND OTHER POST EMPLOYMENT BENEFITS

A. *PLAN DESCRIPTIONS*

Primary Government

The Commonwealth is statutorily responsible for the pension benefits for Commonwealth employees (members of the State Employees' Retirement System) and for teachers of the cities, towns, regional school districts throughout the Commonwealth and Quincy College (members of the Teachers' Retirement System). The members of the retirement systems do not participate in the Social Security System.

The Massachusetts *State Employees' Retirement System* (SERS) is a single employer defined benefit public employee retirement system (PERS), covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies, including the state police officers at the Massachusetts Port Authority. The former MTA employees and retirees became members of SERS upon the creation of MassDOT. Other employees who transferred to MassDOT had been, and remain, members of SERS. The assets and liabilities of the former MTA have been transferred to

the SERS. The SERS is administered by the Massachusetts State Retirement Board and is part of the reporting entity and does not issue a stand-alone audited financial report.

The Massachusetts *Teachers' Retirement System* (MTRS) is a defined benefit PERS managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities towns, regional school districts and Quincy College. Consequently, the Commonwealth reports the MTRS as a single employer PERS with special funding responsibilities. The MTRS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand-alone audited financial report.

Certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis. Benefits are recorded when due and payable.

Membership – Membership in SERS and MTRS as of January 1, 2012, the date of the most recent valuation, is as follows:

	SERS	MTRS	BTRS
Retirees and beneficiaries currently receiving benefits	54,544	57,406	4,189
Terminated employees entitled to benefits but not yet receiving them	4,129	N/A	201
Subtotal	58,673	57,406	4,390
Current members	85,935	86,860	5,428
Total	144,608	144,266	9,818

Legally Required Reserves Accounts - The balances of legally required reserves at December 31, 2011 (most recent available information) were as follows (amounts in thousands):

	SERS	MTRS	Purpose
Annuity Savings Fund	$ 5,163,896	$ 5,385,103	Active members' contribution balance
Annuity Reserve Fund	1,411,635	2,591,962	Retired members' contribution account
Special Military Service Fund.	48	367	Members' contribution account while on military leave
Pension Reserve Fund	11,916,359	12,232,567	Amounts appropriated to fund future retirement benefits
Total	$ 18,491,938	$20,209,999	

Boston teachers are members of the State Boston Retirement System (SBRS) and are not included in this membership data.

B. *BENEFIT PROVISIONS*

Massachusetts General Laws establish uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

C. *FUNDING AND CONTRIBUTIONS POLICY*

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

D. *OTHER FINANCING SITUATIONS*

Chapter 112 of the Acts of 2010, signed on May 22, 2010, changed the methodology for the Commonwealth funding of Boston teachers in the SBRS. The cost of pension benefits of the other participants of the SBRS is the responsibility of the City of Boston. Chapter 112 clarified that the Commonwealth is responsible for all contributions and future benefit requirements for Boston Teachers that are members of the SBRS. For the fiscal year ending June 30, 2012, the Commonwealth contributed $90 million in satisfaction of its actuarially required contribution to the SBRS. The SBRS is a cost sharing multiple employer pension system that is not administered by the Commonwealth and is not part of the reporting entity of the Commonwealth. For a complete copy of SBRS's separately issued financial statements, please contact the City of Boston Retirement Board at 617-635-4305.

The retirement systems' funding policies have been established by Chapter 32 of the Massachusetts General Laws. The Legislature has the authority to amend these policies. The annuity portion of the SERS and TRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

The Commonwealth is financially responsible for the cost of living adjustment (COLA) granted to participants in various retirement systems of cities, towns and counties in fiscal year 1981 to 1997. Chapter 17 of the Acts of 1997 effective for fiscal year 1998 transferred the responsibility for funding COLAs for separate (non-teacher) retirement systems of cities and towns to their respective systems. Any future COLA granted by the Legislature to employees of these plans will be the responsibility of the individual system, assuming approval by the local board. The individual employer governments are also responsible for the basic pension benefits.

The actuarial accrued liability for COLAs as of January 1, 2012 was $263 million.

The policy for post-retirement benefit increases for all retirees of the SERS, MTRS, for those participants who serve in the City of Boston's School Department in a teaching capacity and COLAs of local governments is subject to legislative approval.

The total contributions required for SERS and TRS are based on the entry age normal cost method using the same actuarial assumptions used to compute the net pension obligation.

A table of Pension Funding Progress and the Commonwealth's annual pension contributions for the past six fiscal years is presented as supplemental information of this report.

Member contributions vary depending on the most recent date of membership:

Hire Date	% of Compensation
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation except for State Police which is 12% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of $30,000

Schedule of Annual Required Contributions and Calculation Methodology

Chapter 32 of the General Laws directs the Secretary of Administration and Finance to prepare a funding schedule to meet actuarially determined requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the Secretary's direction. Any such schedule is subject to legislative approval. If a schedule is not so approved, payments are to be made in accordance with the most recently approved schedule. Under the current

schedule adopted in 2011, the amortization payments are designed to eliminate the unfunded liability by fiscal year 2040 on the basis of 4.50% annual growth. The funding schedule as published follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability.

Contributions by the Commonwealth of $1.478 billion were made during the fiscal year ended June 30, 2012. Of this amount $19 million represents budgeted payments for COLAs granted to participants in retirement systems of cities, towns and counties and approximately $90 million represents payments for Boston Teachers.

GAAP requires that pension expenditures (costs) be based on the actuarially required contribution determined using an acceptable actuarial cost method and that they are not less than:

· Normal cost plus amortization of net pension obligation cost
· Interest and amortization on any unfunded prior service costs

The Commonwealth contributed approximately 88% of its annual required contributions in FY12.

The following table shows the detail of annual required contributions (ARC) and Commonwealth contribution, as well as pension cost contributions exclusive of cost of living adjustments (amounts in thousands):

	SERS	MTRS	Total
2012			
Annual required contribution	$ 620,274	$ 941,918	$ 1,562,192
Interest on net pension obligation	15,917	67,899	83,816
Adjustment to annual required contribution	(11,026)	(47,035)	(58,061)
Annual pension cost	625,165	962,782	1,587,947
Less: Contributions made, excluding COLAs	(518,918)	(849,496)	(1,368,414)
Increase in net pension obligation	106,247	113,286	219,533
Net pension obligation beginning of year	273,350	926,011	1,199,361
Net pension obligation end of year	$ 379,597	$ 1,039,297	$ 1,418,894
2011			
Annual pension cost	$ 476,874	$ 790,721	$ 1,267,595
Percentage of annual pension cost contributed	90.4%	108.2%	101.5%
Net pension obligation end of year	$ 273,350	$ 926,011	$ 1,199,361
2010			
Annual pension cost	$ 646,913	$ 1,107,284	$ 1,754,197
Percentage of annual pension cost contributed	63.5%	62.4%	62.8%
Net pension obligation end of year	$ 227,642	$ 990,491	$ 1,218,133

E. *FUNDED STATUS AND FUNDING PROCESS*

The funded status of SERS and MTRS as of January 1, 2012, the most recent actuarial valuation date, is as follows (amounts in thousands except for percentages)

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll *	UAAL as a % of Covered Payroll *
State Employees Retirement System						
Actuarial Valuation as of January 1, 2012.	$ 20,507,644	$ 27,784,731	$ 7,277,087	73.8%	$ 4,922,388	147.8%
Teachers' Retirement System						
Actuarial Valuation as of January 1, 2012.	$ 22,141,475	$ 36,483,027	$ 14,341,552	60.7%	$ 5,655,353	253.6%

* The covered payroll amount approximates the employer payroll

The following table displays the Schedule of Net Assets and the Schedule of Changes in Net Assets for the SERS, the MTRS and the SRBT as of June 30, 2012, (amounts in thousands):

	Pension Trust Funds		OPEB Trust Fund	
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
ASSETS				
Cash and short-term investments	$ 128,550	$ 156,993	$ 1,262	$ 286,805
Investments at fair value:				
Short-term	330,181	355,736	6,366	692,283
Domestic Equity	3,406,453	3,670,104	65,674	7,142,231
Fixed Income	4,471,269	4,817,335	86,203	9,374,807
International Equity	4,426,153	4,768,725	85,333	9,280,211
Private Equity	2,409,906	2,596,426	46,461	5,052,793
Hedge fund-of-funds	1,879,297	2,024,749	36,231	3,940,277
Real Estate	1,870,274	2,015,028	36,057	3,921,359
Timber and Other Natural Resources	473,698	510,360	9,133	993,191
Total investments at fair value	19,267,231	20,758,463	371,458	40,397,152
Other receivables	324,797	349,952	6,260	681,009
Total assets	**19,720,578**	**21,265,408**	**378,980**	**41,364,966**
LIABILITIES				
Accounts payable	324,565	351,784	6,235	682,584
Net assets available for post - employment benefits	**$ 19,396,013**	**$ 20,913,624**	**$ 372,745**	**$ 40,682,382**

	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
ADDITIONS				
Contribution:				
Employer contributions	$ 538,292	$ 939,945	$ 414,476	$ 1,892,713
Employee contributions	544,558	640,056	-	1,184,614
Total contributions	**1,082,850**	**1,580,001**	**414,476**	**3,077,327**
Net investment gain (loss):				
Investment gain (loss)	(85,987)	(97,495)	17,382	(166,100)
Less: investment expense	(26,979)	(29,065)	(1,312)	(57,356)
Net investment gain (loss)	**(112,966)**	**(126,560)**	**16,070**	**(223,456)**
Total additions	**969,884**	**1,453,441**	**430,546**	**2,853,871**
DEDUCTIONS				
Administration	8,657	14,958	15,307	38,922
Retirement benefits and refunds	1,646,861	2,330,836	410,025	4,387,722
Payments to State Boston Retirement System	-	90,399	-	90,399
Total deductions	**1,655,518**	**2,436,193**	**425,332**	**4,517,043**
Net increase(decrease)	**(685,634)**	**(982,752)**	**5,214**	**(1,663,172)**
Net assets available for post - employment benefits at beginning of year	20,081,647	21,896,376	367,531	42,345,554
Net assets available for post - employment benefits at end of year	**$ 19,396,013**	**$ 20,913,624**	**$ 372,745**	**$ 40,682,382**

F. *ADDITIONAL ACTUARIAL INFORMATION*

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the basic financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability (AALs) for benefits.

Additional information as of the latest actuarial valuation is as follows:

1. The annual required contribution for 2012 was determined as part of the January 1, 2012 actuarial valuation using the entry age normal cost method.

2. The actuarial assumptions included (a) 8.25% investment rate of return, (b) 3.25% interest rate credited to the annuity savings fund and (c) 3% cost of living increase per year. The 2012 actuarial valuation report issued by PERAC includes a recommendation that the investment return assumption be reduced to 8.0%, in conjunction with the completion of an ongoing review of other assumptions related to a current experience analysis being conducted by PERAC. The experience analysis is expected to be completed in time for the January 1, 2013 actuarial valuation.

3. Salary increases are based on analyses of past experience but range from 4.5% to 10.0% depending on group and length of service.

4. The assumptions do not include post-retirement benefit increases, which are taken into account when granted under amendments to General Laws.

5. The actuarial value of assets was determined using various techniques that smooth the effects of short-term volatility in the market value of investments, with a phased–in approach. Under this approach, 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring two years prior, etc, so that 100% of gains and losses occurring five years prior are recognized. The actuarial value of assets is adjusted if necessary in order to remain between 90% and 110% of market value.

6. Normal costs are amortized using level percentage of payroll, closed.

7. The remaining amortization period for the unfunded pension liability at January 1, 2012 was 29 years to FY40.

In July 2011, as part of its FY12 budget the Commonwealth enacted legislation including an extension of the Commonwealth's pension funding schedule from 2025 to 2040.

G. *COMMONWEALTH POST EMPLOYMENT OBLIGATIONS OTHER THAN PENSIONS (OPEB)*

In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care/benefit costs which are comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

The Group Insurance Commission (GIC) of the Commonwealth manages the Commonwealth's defined benefit OPEB plan as an agent multiple employer program including the Commonwealth and 370 municipalities and other non- Commonwealth governmental entities. These entities that participate in the GIC are responsible for paying premiums at the same rate to the GIC and therefore benefit from the Commonwealth's premium rates. The GIC has representation on the Board of Trustees of the State Retiree Benefits Trust Fund (SRBT).

At the inception of MassDOT, the employees of the former MTA became eligible to participate in the Commonwealth's OPEB plan. All other employees of MassDOT were members of the plan prior to the creation of MassDOT and remain so. The liability for MDOT (including former MTA employees) is included in the Commonwealth's liability. The former MTA had established an irrevocable trust to fund OPEB liabilities. That trust had a balance of approximately $61 million as of June 30, 2012. The trustees have yet to make a decision on the disposition of that Trust. No adjustment has been made in the Commonwealth OPEB valuation for these assets.

The SRBT is set up solely to pay for OPEB benefits and the cost to administer those benefits. It can only be revoked when all such health care and other non-pension benefits, current and future have been paid or defeased. GIC administers benefit

payments, while the Trustees are responsible for investment decisions. The FY12 General Appropriation Act transferred approximately $414 million to the Trust for the purpose of benefits payments.

Funding Policy

Employer and employee contribution rates are set in General Law. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2009 and as of the valuation date (January 1, 2012), Commonwealth participants contributed 0% to 20% of premium costs, depending on the date of hire and whether the participant is active, retiree or survivor status. As part of the FY12 General Appropriation Act, all active employees pay an additional 5% of premium costs. Normal costs paid for OPEB to retirees during FY12 totaled approximately $558 million. There are approximately 151,304 participants eligible to receive benefits at June 30, 2012.

Annual OPEB Cost and Net OPEB Obligation, Funded Status and Funding Progress

The Commonwealth and the MSBA are not required to contribute the actuarially determined annual required contribution (ARC) under the provisions of GASB Statement No. 45 and under Commonwealth general laws. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For fiscal year 2012, the Commonwealth's annual OPEB contribution of approximately $558 million for retiree benefits was less than the ARC. The Commonwealth's annual OPEB cost, the percentage of annual OPEB cost contributed to the SRBT and the net OPEB obligation for the Commonwealth for FY12 are as follows from the valuation calculated as of January 1, 2012 (amounts in millions except percentages):

2012	SRBT
Annual required contribution (ARC)	$ 1,286
Interest on net OPEB obligation	121
Adjustment to annual required contribution	(94)
Annual OPEB cost (AOC)	1,313
Less: Contributions made*	(558)
Increase in net OPEB obligation	755
Net OPEB obligation as reported at beginning of year	2,691
Net OPEB obligation - end of year	$ 3,446
2011	
Annual OPEB cost	$ 1,295
Percentage of annual OPEB cost contributed	43.0%
Net OPEB obligation - end of year	$ 2,691
2010	
Annual OPEB cost	$ 1,176
Percentage of annual OPEB cost contributed	31.6%
Net OPEB obligation - end of year	$ 1,953

*Includes approximately $28 million in Medicare Part D Retiree Drug Subsidy Payments

The funded status of the Commonwealth's OPEB obligation is as follows: (amounts in thousands except for percentages)

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
Actuarial Valuation as of January 1, 2012	$ 360,500	$ 16,659,400	$ 16,298,900	2.2%	$ 4,922,388	331.1%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the SRBT and the annual required

contributions of the Commonwealth are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Commonwealth and those non-Commonwealth governments that participate in GIC) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs on a premium basis between the Commonwealth and those non-Commonwealth governments that participate in GIC to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), a 4.5% inflation rate and an annual healthcare cost trend rate of 7.5%, decreasing by 0.5% for five years to an ultimate rate of 5.0%.

Administrative expenses are expected to rise 5.0% per annum. The Commonwealth's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis for a period of thirty years, increasing at a rate of 4.5% per year, the same rate as the projected salary increases.

A schedule of funding progress for OPEB is presented as Required Supplementary Information (RSI).

The most recent OPEB actuarial valuation for the Commonwealth is available on the Comptroller's web site at http://www.mass.gov/osc/publications-and-reports/financial-reports/opeb.html. There is currently no separate, audited GAAP-basis postemployment benefit plan report available for the Commonwealth.

MSBA

The MSBA's ARC for FY12 was approximately $2 million. The MSBA did not have a net OPEB obligation at June 30, 2012 and made contributions of approximately $2 million during FY12. Based on an actuarial valuation as of January 1, 2009, which was updated on June 30, 2012, the MSBA had plan assets of $2 million and no actuarial accrued liability. Covered payroll of active plan members was approximately $4 million.

During fiscal year 2012, the MSBA established an irrevocable trust to accumulate assets to pay for future other post-employment benefits. In June, 2012, the MSBA transferred approximately $2 million to the SRBT to fully fund it.

10. LEASES

Primary Government

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase (TELP) agreements, which are accounted for as capital leases. Included in the capital assets of the Commonwealth are additions financed by capital leases. For FY12, these additions are approximately $4 million. Lease agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature.

The Commonwealth has numerous operating lease agreements for real property and equipment with varying terms. These agreements contain provisions indicating that continuation is subject to appropriation by the Legislature.

The Colleges and the University lease real property and equipment under numerous operating lease agreements for varying terms. The following schedule summarizes future minimum payments under non-cancelable leases for governmental activities and for the Colleges and University – reported as a business-type activity, for the fiscal year ended June 30, 2012 (amounts in thousands):

	Governmental Activities					Business - Type Activities			
	Capital Leases		Operating	MSBA Operating	Governmental Activities	Capital Leases		Operating	Business -Type Activities
Fiscal Year Ended June 30	Principal	Interest	Leases	Leases	Total	Principal	Interest	Leases	Total
2013	$ 10,248	$ 2,863	$ 144,757	$ 744,578	$ 902,446	$ 6,950	$ 797	$ 10,246	$ 17,993
2014	7,947	2,219	112,101	762,235	884,502	5,858	574	7,426	13,858
2015	6,972	1,947	93,614	451,388	553,921	3,510	380	7,359	11,249
2016	6,031	1,686	77,511	-	85,228	1,186	304	5,167	6,657
2017	4,631	1,294	60,540	-	66,465	820	272	4,977	6,069
2018 - 2022	14,862	4,149	169,821	-	188,832	2,461	1,019	9,991	13,471
2023 - 2027	9,646	2,694	55,238	-	67,578	2,530	345	1,868	4,743
2028 - 2032	120	34	53,163	-	53,317	12	-	419	431
2033 - 2037	-	-	8,562	-	8,562	-	-	-	-
Total lease obligations	60,457	16,886	775,307	1,958,201	2,810,851	23,327	3,691	47,453	74,471
Less: current portion	(10,248)	(2,863)	(144,757)	(744,578)	(902,446)	(6,950)	(797)	(10,246)	(17,993)
Long - term lease obligations	$ 50,209	$ 14,023	$ 630,550	$ 1,213,623	$ 1,908,405	$ 16,377	$ 2,894	$ 37,207	$ 56,478

Capital assets acquired under capital lease (amounts in thousands):

	Primary Government	
Asset type:	Governmental Activities	Business-type Activities
Buildings	$ -	$ 14,634
Machinery and equipment	77,555	13,582
Total assets	77,555	28,216
Less: accumulated depreciation	(16,447)	(16,417)
Total	$ 61,108	$ 11,799

11. COMMITMENTS

A. *PRIMARY GOVERNMENT*

The Commonwealth continues to guarantee certain Massachusetts Bay Transportation Authority (MBTA) debt outstanding at June 30, 2012, totaling approximately $495 million.

The MBTA's Forward Funding legislation of 1999 provides for the MBTA to issue general obligation, revenue or other debt secured by a pledge or conveyance of all or a portion of revenues, receipts or other assets or funds of the MBTA. Accordingly, all MBTA debt issued after this legislation is not backed by the full faith and credit of the Commonwealth.

Additional commitments of the Commonwealth remain for the University of Massachusetts Building Authority and the Massachusetts State College Building Authority. As of June 30, 2012, the University of Massachusetts Building Authority has committed debt of approximately $2.240 billion, of which approximately $169 million is guaranteed by the Commonwealth. The Massachusetts State College Building Authority has approximately $1.031 billion of outstanding debt, of which approximately $14 million is guaranteed by the Commonwealth.

B. *SALTONSTALL BUILDING*

The Massachusetts Development Finance Agency (MDFA) was authorized in legislation to undertake redevelopment of the Saltonstall State Office Building (Building) and its surrounding area. Under the provisions of MDFA's bond authorization, the Building is to be leased by the MDFA for a lease term of up to 50 years with extension terms permitted for an aggregate 30 more years. The MDFA renovated the Building and leased half of it back to the Commonwealth for office space and related parking for a comparable lease term. The remainder of the Building and surrounding area has been redeveloped as private office space, housing and retail establishments. The Commonwealth is obligated for future lease payments for space it rents.

However, this obligation is not a general obligation or a pledge of credit of the Commonwealth. Though MDFA's bonds are revenue obligations, with pledges of the public and private lease payments, the Commonwealth's lease payments are due upon occupancy and are subject to annual appropriation.

C. *OTHER CONSTRUCTION COMMITMENTS*

At June 30, 2012, the Commonwealth had commitments of approximately $619 million related to ongoing construction projects.

D. *CONTRACTUAL ASSISTANCE TO AUTHORITIES*

The Commonwealth is also authorized to pledge its credit in aid of and provide contractual support for certain independent authorities and political subdivisions within the Commonwealth. These Commonwealth liabilities are classified as: (a) general obligation contract assistance; (b) budgetary contractual assistance liabilities; or (c) contingent liabilities. In addition, the Commonwealth is authorized to pledge its credit in support of scheduled, periodic payments to be made by the Commonwealth under interest rate swaps and other hedging agreements related to bonds or notes of the Commonwealth.

General obligation contract assistance arise from statutory requirements for payments by the Commonwealth to the Massachusetts Water Pollution Abatement Trust, the Massachusetts Department of Transportation and the Massachusetts Development Finance Agency that are used by such entities to pay a portion of the debt service on certain of their outstanding bonds. Such assistance constitutes a pledge of the Commonwealth's credit for which a two-thirds vote of the Legislature is required.

Budgetary contract assistance liabilities do not constitute a pledge of the Commonwealth's credit. Contingent liabilities relate to debt obligations of independent authorities and agencies of the Commonwealth, or payment obligations of such entities on hedging transactions related to such debt, that are expected to be paid without Commonwealth assistance, but for which the Commonwealth has some kind of liability if expected payment sources do not materialize. These contingent liabilities consist of guarantees and similar obligations with respect to which the Commonwealth's credit has been or may be pledged. Under legislation approved by the Governor during FY09, the Commonwealth may pledge its credit to guarantee payment obligations of the Massachusetts Turnpike Authority (succeeded by MassDOT in FY10) with respect to certain hedging transactions or provide financial support subject to annual appropriation and without a pledge of the Commonwealth's credit. The same legislation authorizes the Commonwealth to provide credit support to the Turnpike Authority (succeeded by MDOT) in connection with the issuance of certain refunding bonds, subject to annual appropriation and without a pledge of the Commonwealth's credit. In addition, the Commonwealth has certain statutorily contemplated payment obligations with respect to which the Commonwealth's credit has not been pledged, as in the case of the Commonwealth's obligation to replenish the capital reserve funds securing certain debt obligations of the Massachusetts Housing Finance Agency and the Commonwealth's obligation to fund debt service, solely from monies otherwise appropriated for the affected institution, owed by certain community colleges and state universities on bonds issued by the Massachusetts Health and Educational Facilities Authority and the Massachusetts State College Building Authority.

E. *MSBA*

The MSBA has estimated the amount of outstanding Waiting commitments and New Program commitments at June 30, 2012 to be $84 million and $1.4 billion, respectively.

12. CONTINGENCIES

A number of lawsuits are pending or threatened against the Commonwealth, which arise from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid, the Attorney General estimates no liability is due within a year.

Workers' compensation costs are recognized when claims are presented and paid. The Commonwealth's outstanding liability for such claims at June 30, 2012 is estimated to be $276 million of which approximately $38 million is expected to be paid during FY13.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to these resources is generally contingent upon compliance with terms and conditions of the grant or reimbursement agreements and with applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits.

Chapter 200A of the Massachusetts General Laws, the Commonwealth's Abandoned Property Law, requires deposit of certain unclaimed assets into a managed Fiduciary Fund. These unclaimed assets are to be remitted to the General Fund each June 30, where it is included as miscellaneous revenue. Amounts remitted during FY12 totaled approximately $184 million. A portion of accumulated claims since the law's enactment represent a contingency, because claims for refunds can be made by the owners of the property.

Drug Testing Laboratory disputes. On August 28, 2012, a chemist formerly employed at the Department of Public Health's drug testing laboratory in Boston admitted to several types of misconduct involving her handling of laboratory samples, which were used in criminal cases. The Governor was informed and ordered the immediate closure of the laboratory. The Governor has since established a central office to identify individuals who may be affected by the chemist's malfeasance, which has the potential to affect tens of thousands of criminal drug cases. The Attorney General has called for the appointment of an independent investigator to probe malfeasance at the laboratory. There likely will be significant, but as yet undetermined, state costs required to account for the chemist's malfeasance. In addition, there may be costs to defend civil complaints alleging state liability in both state and federal court and for potential judgments. As neither the criminal investigation nor the determination of the number or specific cases affected has been completed, there is not sufficient information to fully estimate these additional state costs at this time. However, on November 1, 2012, the Governor filed with the Legislature a supplemental appropriations bill that will create a $30 million reserve fund to reimburse agencies and cities for costs associated with potentially mishandled drug tests.

A. *TOBACCO SETTLEMENT*

A Master Settlement Agreement (MSA) was executed in November of 1998 between five tobacco companies and 46 states, including the Commonwealth.

The MSA called for, among other things, annual payments to the states in perpetuity. These payments have been estimated to total more than $200 billion over the first 25 years, subject to various offsets, reductions and adjustments. In FY12, the Commonwealth received approximately $254 million or 68.5% of the estimated amounts shown in the MSA. The FY12 General Appropriation Act directed all MSA receipts to the General Fund. Beginning in FY13, 10.0% of tobacco settlement payments will be deposited in the State Retiree Benefits Trust Fund (SRBT) to fund the Commonwealth's liability for retiree health care. The portion of the annual tobacco settlement payments dedicated to the SRBT will increase to 10.0% per year until it reaches 100.0% in FY23. The Commonwealth's allocable share of the total base amounts payable under the MSA is approximately 4.05%. The Commonwealth's allocable share of the base amounts under the agreement through 2025 is nearly $8.96 billion, subject to adjustments, reductions and offsets. However, in pending litigation, tobacco manufacturers are claiming that because of certain developments, they are entitled to reduce future payments under the MSA, and certain manufacturers withheld payments to the states due in FY06 and FY07. The Commonwealth continues to pursue legal action to compel the payment of these additional funds and to obtain a legal determination that the Commonwealth is immune from the claimed downward adjustment to its settlement payments.

In FY04, a Suffolk Superior Court jury rejected the claims of the Commonwealth's private tobacco attorneys that they should be paid a fee amounting to 25% of the Commonwealth's tobacco settlement money. The jury awarded the plaintiffs 10.5% of the amount the Commonwealth receives under the MSA through 2025. To date, however, the attorneys have received more than 10.5% of what the Commonwealth has received under the MSA. As of June 30, 2009, the Commonwealth owes nothing under the jury award. Whether the Commonwealth will in the future be required to pay any sum on private counsel's claim will depend on the actual payments received by the Commonwealth under the MSA through 2025, as well as on the amounts the attorneys receive through arbitration payments.

B. *WORKERS' COMPENSATION AND GROUP INSURANCE LIABILITIES*

Workers' Compensation is managed as part of the course of the Commonwealth's general operations. No separate fund for workers' compensation is provided for in Massachusetts General Laws. Claims for compensation are not separately insured

and are funded by the Commonwealth only when incurred. Such losses, including estimates of amounts incurred, but not reported, are included as accrued liabilities in the accompanying financial statements when the loss is incurred. The Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury, Massachusetts General Laws limit the risk assumed by the Commonwealth to $100,000 per occurrence, in most circumstances.

Based on actuarial calculations as of June 30 2012, discounted, the Commonwealth is liable for unfunded claims and incurred but not reported claims totaling approximately $276 million.

Changes in the Commonwealth's liability relating to workers' compensation claims in FY12 and FY11 were (amounts in thousands):

	FY12	FY11
Claim liability, beginnng of year……	$ 285,400	$ 293,400
Increase in liability estimate……	43,188	45,734
Payments and decreases in liability estimate……	(52,456)	(53,734)
Claims liability, end of year……	$ 276,132	$ 285,400

The Group Insurance Commission (GIC), a department of the Commonwealth, manages health insurance claims of the Commonwealth's active and retired employees. The Commonwealth is self-insured and various health insurance providers provide health care services to the employees. The accrued liability is estimated based on data provided to the GIC by the insurance companies who participate in the self-insured plans.

Based on GIC estimates, the Commonwealth is liable for an amount of $138 million, net of the employees' reserve of $72 million. Changes in the Commonwealth's liability relating to Group Insurance claims in FY12 and FY11 were (amounts in thousands):

	FY12	FY11
Claim liability, beginnng of year……	$ 80,327	$ 97,100
Increase in liability estimate……	1,218,079	1,113,566
Payments and decreases in liability estimate……	(1,206,230)	(1,130,339)
Claims liability, end of year……	$ 92,176	$ 80,327

C. *OTHER CLAIMS & JUDGMENTS*

The following amounts were recognized for claims and judgments in FY12 and FY11 (amounts in thousands):

	FY12	FY11
Unpaid claims, beginning of year……	$ 40,000	$ 60,000
Incurred claims……	11,925	11,140
Claim payments and reductions……	(11,925)	(31,140)
Unpaid claims end of year……	$ 40,000	$ 40,000

D. *ENVIRONMENTAL REMEDIATION*

Governmental Accounting Standards Board Statement No 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49) became effective in FY09. GASB 49 provides guidance in estimating and reporting the potential costs of pollution remediation. While GASB 49 does not require the Commonwealth to search for pollution, it does require the Commonwealth to reasonably estimate and report a remediation liability when any of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the Commonwealth is compelled to take action;

- The Commonwealth is found in violation of a pollution-related permit or license;
- The Commonwealth is named, or has evidence that it will be named, as a responsible party by a regulator;
- The Commonwealth is named, or has evidence that it will be named in a lawsuit to enforce a cleanup;
- The Commonwealth commences or legally obligates itself to conduct remediation activities.

Site investigation, planning and design, cleanup and site monitoring are typical remediation activities underway across the Commonwealth. Several Commonwealth agencies have dedicated programs, rules and regulations that routinely deal with remediation related issues; others become aware of pollution conditions in the fulfillment of their missions. The Commonwealth has the knowledge and expertise to estimate the remediation obligations presented herein based upon prior experience in identifying and funding similar remediation activities.

The standard requires the Commonwealth to calculate pollution remediation liabilities using the expected cash flow technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts. Where the Commonwealth cannot reasonably estimate a pollution remediation obligation it does not report a liability. Several state departments perform continuous monitoring of polluted sites. Since the monitoring for such sites is perpetual, undiscounted multi-year costs for such sites have not been estimated. Because of a lack of information about the type and extent of the remediation effort that could be required, no range of outlays for the overall remediation effort for such sites could be developed at this time.

The remediation obligation estimates that appear in this report are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the Commonwealth's obligation. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

During the fiscal year, the Commonwealth had the following activity related to GASB 49 (amounts in thousands):

	Governmental Activities	Business-Type Activities	Government-Wide Total
Environmental remediation liability, beginnng of year……..	$ 174,213	$ 1,644	$ 175,857
Expected additional future outlays, increasing liability estimates..	79,090	(174)	78,916
FY12 outlays for environmental remdiation …….	(10,782)	-	(10,782)
Estimated recoveries from third parties……	(1,760)	-	(1,760)
Environmental remediation liability, end of year……	$ 240,761	$ 1,470	$ 242,231

The Boston Harbor Clean–Up. The Commonwealth is engaged in various lawsuits in the United States District Court concerning environmental and related laws, including an action brought by the federal Environmental Protection Agency alleging violations of the Clean Water Act and seeking to reduce the pollution in Boston Harbor, *e.g., United States v. Metropolitan District Commission*; *Conservation Law Foundation v. Metropolitan District Commission*. The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission, has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. Under the Clean Water Act, the Commonwealth may be liable for any cost of complying with any judgment in these or any other Clean Water Act cases to the extent that the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment. The total cost of construction of the wastewater facilities required under the federal district court's order, not including combined sewer overflow (CSO) costs, has been approximately $3.8 billion. The MWRA has also spent approximately $810 million in developing and implementing the CSO plan and its projects. Thus, the cost of construction of water treatment facilities required under the court's order has now amounted to approximately $4.61 billion. Going forward, the MWRA anticipates spending an additional $64 million on remaining design and construction work on CSO projects. These figures do not include routine ongoing costs, such as maintenance expenses and capital spending for plant and system retrofits, and replacements.

Massachusetts Military Reservation. The Commonwealth through various departments has been engaged with various sectors of the federal government including the federal Department of Defense regarding natural resource damages at the

Massachusetts Military Reservation on Cape Cod. Federal trustees and others claim that the Commonwealth and others may be liable for natural resource damages due to widespread contamination primarily from past military activities at the Reservation and are responsible for response actions and related clean-up activities. The assessment process for natural resource damages is set out in federal regulations and has not been completed. While no recent comprehensive estimate of natural resource damages and response actions is available, it is expected that the damages and response actions may cost at least tens of millions of dollars.

Closed State Facilities. The Commonwealth has 17 facilities which contain a total of 235 buildings, mainly in closed state hospitals that may have varying degrees of asbestos, polychlorinated biphenyl (PCB's) and other compounds that are currently in a dormant state. The Commonwealth typically sells these facilities at minimal cost to private developers who assume full responsibility for any sort of cleanup activity. Cost estimates are only performed during the sale process. At this time, the Commonwealth has no estimate of any potential asset that would be developed from these activities that would ready these sites for sale.

13. COMPONENT UNITS AND DETAILS OF DEPARTMENTS AND ENTITIES THAT ARE SEPARATELY AUDITED

The Commonwealth has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth of Massachusetts (the primary government) and its component units. The Commonwealth has included 15 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth. Details of those entities' operations can be found in those entities' basic financial statements and notes to those entities' basic financial statements.

The following entities are presented in the basic financial statements (all having a June 30, 2012 fiscal year end) (entities marked with an * are not legally separate from the Commonwealth but have separately audited financial statements). Entities that are marked with a § also were not audited in accordance with *Governmental Auditing Standards* as promulgated by the Comptroller General of the United States.

Entities Audited by KPMG LLP:

The Massachusetts School Building Authority (MSBA)
The Pension Reserves Investment Trust Fund (PRIT)
*§The Massachusetts State Lottery Commission
The Massachusetts Department of Transportation (MassDOT)
The Massachusetts Water Pollution Abatement Trust (MWPAT)
Commonwealth Health Insurance Connector Authority

*Community Colleges:
- Bunker Hill Community College
- Greenfield Community College
- Middlesex Community College
- North Shore Community College

Entities Audited by Other Auditors:

*The Massachusetts Municipal Depository Trust (MMDT)
*The University of Massachusetts System
*Community Colleges (in addition to the four Community Colleges audited by KPMG LLP, above):

- Berkshire Community College
- Bristol Community College
- Cape Cod Community College
- Holyoke Community College

Massasoit Community College
Massachusetts Bay Community College
Mount Wachusett Community College
Northern Essex Community College
Quinsigamond Community College
Roxbury Community College
Springfield Technical Community College

Community College component units:

Berkshire Community College Foundation
Bristol Community College Foundation
Bunker Hill Community College Foundation
Cape Cod Community College Educational Foundation, Inc.
Greenfield Community College Foundation, Inc.
Holyoke Community College Foundation
Massachusetts Bay Community College Foundation, Inc.
Massasoit Community College Foundation
Middlesex Community College Foundation, Inc.
North Shore Community College Foundation
Springfield Technical Community College Foundation
The Mount Wachusett Community College Foundation, Inc.
The Northern Essex Community College Foundation, Inc.
The Quinsigamond Community College Foundation, Inc.
The Roxbury Community College Foundation, Inc.

*State Universities

Bridgewater State University
Fitchburg State University
Framingham State University
Massachusetts College of Art
Massachusetts Maritime Academy
Massachusetts College of Liberal Arts
Salem State University
Westfield State University
Worcester State University

State university component units:

Bridgewater State University Component Units:
- The Bridgewater State University Foundation
- The Bridgewater Alumni Association of Bridgewater State University

Fitchburg State University Foundation, Inc.
Framingham State University Foundation, Inc.
Massachusetts College of Art Foundation, Inc.
Massachusetts College of Liberal Arts Foundation, Inc.
The Massachusetts Maritime Academy Foundation, Inc.
The Massachusetts State College Building Authority

Salem State UniversityComponent Units:
- The Salem State University Foundation, Inc.
- Salem State University Assistance Corporation

Westfield State UniversityFoundation, Inc.
Worcester State Foundation

Massachusetts Convention Center Authority (MCCA)

§Massachusetts Development Finance Agency (MassDevelopment)

§Massachusetts Technology Park Corporation (MTPC)

Economic Development Entities (7 separate entities) including:

Massachusetts Clean Energy Center (CEC)
Massachusetts Growth Capital Corporation (MGCC)
Commonwealth Corporation
Community Economic Development Assistance Corporation (CEDAC)
Massachusetts Life Sciences Center
Massachusetts Housing Partnership (MHP)
Commonwealth Zoological Corporation (Zoo)

Descriptions of Major and Blended Component Units and Entities that are Legally Separate from the Commonwealth:

Blended Component Units – Blended component units are entities that are legally separate from the Commonwealth but are so related to the Commonwealth, that they are, in substance, the same as the Commonwealth or entities providing services entirely or almost entirely to the Commonwealth. The net assets and results of operations of the following legally separate entities are presented as part of the Commonwealth's operations:

The Massachusetts School Building Authority (MSBA) is charged with administering the Commonwealth's school construction and renovation program. The MSBA's sole revenues are from dedicated sales taxes from the Commonwealth. The MSBA's bonded debt is secured by these sales tax revenues. Any deficiency in the sales tax revenue was born by the Commonwealth up to a minimum floor that was adjusted annually by Commonwealth statute through FY09. Expenditures by the MSBA are made on behalf of the Commonwealth as a successor to a long-standing Commonwealth program of school construction. The MSBA's operations and results thereon are blended with the Commonwealth and as such are reported as a major governmental fund.

The Pension Reserves Investment Trust Fund (PRIT) is the investment portfolio for the pension assets of the Commonwealth and as such, is presented as a blended component unit. PRIT is managed by the Pension Reserves Investment Management (PRIM) Board. Certain portions of PRIT's net assets totaling approximately $8.3 billion relate to holdings on behalf of cities and towns that participate in the Pool and are reported as an external investment trust within the fiduciary fund type.

The Massachusetts Municipal Depository Trust (MMDT) is an investment pool of the Commonwealth and its political subdivisions. The various local governments and other political subdivisions share of net assets is approximately $2.9 billion at June 30, 2012, and is reported as an external investment trust within the fiduciary fund type.

The following entities are audited separately from the Commonwealth but are not legally separate from the Commonwealth:

The Massachusetts State Lottery Commission, a division of the Office of the State Treasurer and Receiver–General, operates the Commonwealth's lottery. The net assets of the Commission and results thereon are presented as a major governmental fund.

The Institutions of Higher Education of the Commonwealth are also not legally separate from the Commonwealth and have operations and net assets that are presented as part of the Commonwealth's business–type activities. These systems include:

The University of Massachusetts System including the University of Massachusetts Building Authority, and the Worcester City Campus Corporation. The Worcester City Campus Corporation includes a not-for-profit subsidiary, the Worcester Foundation for Biomedical Research, Inc. The University System also includes discretely presented component units, the University of Massachusetts Dartmouth Foundation, Inc. and the University of Massachusetts Foundation, Inc.

The State University and Community College Systems including the 9 state universities and 15 community colleges located throughout the Commonwealth and the Massachusetts State College Building Authority (a blended component unit of the state university system).

Other Discretely Presented Component Units that are Separately Audited – Discrete component units are entities which are legally separate (often called Authorities) but financially accountable to the Commonwealth, or whose relationships with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. The component units column of the basic financial statements includes the financial data of the following entities:

Major component units:

The Massachusetts Department of Transportation (MassDOT) incorporates the MTA and has jurisdiction over the MBTA and the RTAs. The Massachusetts Port Authority will become a related organization to MassDOT.

The Massachusetts Water Pollution Abatement Trust (MWPAT) provides a combination of federal and Commonwealth funds for water and sewer projects around the Commonwealth as operator of the Commonwealth's State Revolving Fund.

Commonwealth Insurance Connector Authority administers the Commonwealth health insurance programs to facilitate subsidized health insurance for individuals without access to employer-sponsored health insurance as well as offer an affordable commercial health insurance product named Commonwealth Care to small businesses that are eligible for the program.

14. SUBSEQUENT EVENTS

A. SUBSEQUENT BOND ISSUANCES

On September 25, 2012, the Commonwealth issued $400 million in General Obligation Bonds, Consolidated Loan of 2012, Series C.

On September 27, 2012, the Commonwealth issued revenue anticipation notes (RANs) in the amount of $1.200 billion ($600 million RANs, 2012 Series A and $600 million RANs, 2012 Series B). These notes carry an interest rate of 2% and mature on April 25, 2013 and May 23, 2013 for the 2012 Series A and 2012 Series B, respectively.

In December 2012, the Commonwealth sold $381 million in bonds ($231 million in General Obligation Refunding Bonds, 2012 Series B and $150 million in General Obligation Bonds Consolidated Loan of 2012, Series D).

On August 16, 2012, the MSBA refunded $808 million of 2005 Dedicated Sales Tax Bonds by issuing $766 million of Senior Sales Tax Refunding Bonds (2012 Series A Bonds). The Bonds mature at various dates through August 15, 2030 and the interest on the bonds is due semi-annually each August 15th and February 15th. The interest rates on the bonds range from 3.0% to 5.0%. The refunding resulted in reduced debt service of $77 million and a present value savings of $57 million over the life of the debt.

All debt issues were sold as tax exempt.

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Required Supplementary Information Other Than Management Discussion and Analysis

Vegetables, Farmer's Market, Northampton,
Credit: Paul Schnaittacher

Schedule of Revenue, Expenditures And Changes In Fund Balances – Statutory Basis – Budget and Actual
Explanation of Differences Between Revenues, Expenditures and Other Financing Sources for Budgetary Funds on a Budgetary Basis and GAAP Basis
Notes to Required Supplementary Information – Budgetary Reporting
Schedule of Pension Funding Progress –Last Six Fiscal Years
Schedule of Post Employment Benefit Funding Progress – State Retiree Benefits Trust Fund

Schedule of Revenues, Expenditures and Changes In Fund Balances - Statutory Basis - Budget and Actual

Budgeted Funds

Fiscal Year Ended June 30, 2012

(Amounts in thousands)

	Original Budget	Final Budget	Actual	Variance over/(under)
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes	$ 19,159,700	$ 19,159,700	$ 19,643,721	$ 484,021
Assessments	-	-	459,911	459,911
Federal grants and reimbursements	7,883,300	7,883,300	7,971,705	88,405
Departmental	2,890,173	2,890,173	2,511,978	(378,195)
Miscellaneous	9,427	9,427	245,293	235,866
Total revenues	**29,942,600**	**29,942,600**	**30,832,608**	**890,008**
Other financing sources:				
Fringe benefit cost recovery	-	-	369,083	369,083
Lottery reimbursements	-	97,654	88,658	(8,996)
Lottery distributions	-	887,923	977,553	89,630
Tobacco settlement transfer	-	286,737	253,628	(33,109)
Operating transfers in	2,154,100	687,786	350,221	(337,565)
Stabilization transfer	-	194,000	707,102	513,102
Total other financing sources	**2,154,100**	**2,154,100**	**2,746,245**	**592,145**
Total revenues and other financing sources	**32,096,700**	**32,096,700**	**33,578,853**	**1,482,153**
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Legislature	63,901	63,901	58,337	5,564
Judiciary	729,031	773,447	757,507	15,940
Inspector General	3,541	3,541	2,818	723
Governor and Lieutenant Governor	4,537	10,199	6,543	3,656
Secretary of the Commonwealth	35,947	36,293	35,996	297
Treasurer and Receiver-General	152,686	209,319	187,115	22,204
Auditor of the Commonwealth	17,624	17,624	17,052	572
Attorney General	39,098	43,867	42,624	1,243
Ethics Commission	1,796	1,838	1,729	109
District Attorney	98,705	99,520	99,031	489
Office of Campaign & Political Finance	1,270	1,270	1,196	74
Sheriff's Departments	473,122	521,610	515,153	6,457
Disabled Persons Protection Commission	2,211	2,211	2,210	1
Board of Library Commissioners	21,461	21,461	21,441	20
Comptroller	11,600	11,898	11,512	386
Administration and finance	4,061,902	1,996,386	1,882,078	114,308
Energy and environmental affairs	194,172	199,586	188,058	11,528
Health and human services	4,837,185	4,879,823	4,793,301	86,522
Massachusetts department of transportation	-	160,000	160,000	-
Executive office of education	1,945,621	1,890,522	1,867,271	23,251
Public safety and homeland security	978,273	1,002,508	968,625	33,883
Housing and economic development	357,578	451,002	437,598	13,404
Labor and workforce development	67,248	65,074	37,832	27,242
Direct local aid	4,929,923	4,929,556	4,929,489	67
Medicaid	10,399,807	10,445,850	10,431,108	14,742
Post employment benefits	-	1,892,326	1,892,326	-
Debt service:				
Principal retirement	1,063,241	1,086,502	1,043,636	42,866
Interest and fiscal charges	959,960	938,773	879,518	59,255
Total expenditures	**31,451,440**	**31,755,907**	**31,271,104**	**484,803**
Other financing uses:				
Fringe benefit cost assessment	-	1,900	2,663	(763)
Operating transfers out	-	406,038	471,359	(65,321)
Commonwealth care transfer	-	728,012	614,910	113,102
Medical assistance transfer	-	394,025	220,900	173,125
Stabilization transfer	-	194,000	722,102	(528,102)
Excess permissable tax revenue	-	186,908	186,908	-
Total other financing uses	**-**	**1,910,883**	**2,218,842**	**(307,959)**
Total expenditures and other financing uses	**31,451,440**	**33,666,790**	**33,489,946**	**176,844**
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	**645,260**	**(1,570,090)**	**88,907**	**1,658,997**
Fund balances (deficit) at beginning of year	1,900,819	1,900,819	1,900,819	-
Fund balances (deficits) at end of year	**$ 2,546,079**	**$ 330,729**	**$ 1,989,726**	**$ 1,658,997**

See Independent Auditor's Report and notes to required supplementary information

Explanation of Differences between Revenues, Expenditures and Other Financing Sources (Uses) for Budgetary Funds on a Budgetary Basis and GAAP Basis (in thousands):

	General
REVENUES	
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules	$ 28,963,315
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:	
Tax revenue	145,145
Federal reimbursements and other receivables	84,632
Reclassifications:	
Higher education revenue is reclassified for GAAP reporting	(79,745)
Budgetary Stabilization Fund and Administrative Control Funds revenues are reclassified to the General Fund for GAAP reporting	318,389
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	**$ 29,431,736**
EXPENDITURES	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule	$ 29,877,769
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:	
Medicaid payments	(20,400)
Compensated absences and other accrued liabilities	14,219
Reclassifications:	
Budgetary Stabilization Fund and Administrative Control Funds expenditures are reclassified to the General Fund for GAAP reporting	301,993
Budgetary debt service are reclassified to transfers out to a debt service fund for GAAP purposes as the Commonwealth does not have a statutory debt service fund	(1,020,223)
Higher education expenditures are reclassified for GAAP reporting	(1,128,682)
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	**$ 28,024,676**
OTHER FINANCING SOURCES	
Actual amounts (budgetary basis) "other financing sources" from the budgetary comparison schedule	$ 2,241,433
Reclassifications:	
Budgetary Stabilization Fund and Administrative Control Funds expenditures are reclassified to the General Fund for GAAP reporting	491,708
Adjustments:	
Consolidation of transfers between funds	(591,054)
Inflows from component units and other miscellaneous financing sources	(69,086)
Total other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	**$ 2,073,001**
OTHER FINANCING USES	
Actual amounts (budgetary basis) "other financing uses" from the budgetary comparison schedule	$ 1,476,227
Adjustments and Reclassifications:	
Budgetary Stabilization Fund and Administrative Control Funds expenditures are reclassified to the General Fund for GAAP reporting	231,019
Consolidation of transfers between funds	(591,054)
Budgetary higher education amounts are reclassed to transfers under the modified accrual basis	1,048,937
Budgetary debt service are reclassified to transfers out to a debt service fund for GAAP purposes as the Commonwealth does not have a statutory debt service fund	1,020,223
Total other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	**$ 3,185,352**

See Independent Auditor's Report and notes to required supplementary information

Note to Required Supplementary Information – Budgetary Reporting

The Commonwealth passes a combined budget for all budgeted operations. State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature, which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act.

Before signing the appropriations act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriations act may be made via supplemental appropriation acts or other legislative acts. These must also be signed by the Governor and are subject to the line item veto.

In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotments of appropriated funds which effectively reduce the account's expenditure budget.

The majority of the Commonwealth's appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for spending in the current fiscal year. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation. Fringe benefits, pension costs, and certain other costs which are mandated by state finance law are not itemized in the appropriation process and are not separately budgeted.

Because revenue budgets are not updated subsequent to the original appropriation act, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading. Also, these financial statements portray fund accounting with gross inflows and outflows, thus creating a difference to separately published budget documents, which eliminate some interfund activity. In conducting the budget process, the Commonwealth excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds. An example of this is the lack of a budget for pension costs.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

The FY04 General Appropriation Act (Chapter 26, Section 167 of the Acts of 2003), amended section 9C, directing the Governor to notify the Legislature in writing as to the reasons for and the effect of any reductions in spending. Alternatively, the Governor may propose specific additional revenues to fund the deficiency. The Governor may also propose to transfer funds from the Stabilization Fund to cure the deficiency. This proposal must be delivered to the Legislature 15 days before any reductions take effect.

The table on the following page summarizes budgetary activity for FY12 (amounts in thousands):

	Revenues	Expenditures
General Appropriation Act, Chapter 68 of the Acts of 2011:		
Direct appropriations	$ 30,422,800	$ 30,044,948
Estimated revenues, transfers, direct appropriations, retained revenue appropriations, interagency chargebacks and appropriations carried forward from FY2011	-	1,406,492
Total original budget	30,422,800	31,451,440
Supplemental Acts of 2011:		
Chapter 68	-	10,000
Chapter 142	-	16,845
Chapter 171	-	51,966
Chapter 194	-	5,500
Supplemental Acts of 2012:		
Chapter 36	-	124,110
Chapter 96	-	71,713
Chapter 118	-	213,265
Total as of June 30, 2012	30,422,800	31,944,839
Supplemental Acts of 2012, passed after June 30:		
Chapter 238	-	3,750
Chapter 239	-	43,250
Subtotal	-	47,000
Total budgeted revenues and expenditures per Legislative action	30,422,800	31,991,839
Plus: Pension contributions and revenue authorized outside of General Appropriations Act, and other transfers of revenue and spending	1,673,900	1,674,951
Budgeted revenues and expenditures as reported	$ 32,096,700	$ 33,666,790

As the budget is not passed taking into account the structure of funds, but of appropriations, reports contained within the Commonwealth's MMARS accounting system demonstrate budgetary compliance by appropriation. Those reports are available upon request at the Office of the State Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660.

Schedule of Post Employment Benefits

(Amounts in thousands except for percentages)

Pension Funding Progress for the last six fiscal years

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
State Employees' Retirement System						
Actuarial Valuation as of January 1, 2012….	$ 20,507,644	$ 27,784,731	$ 7,277,087	73.8%	$ 4,922,388	147.8%
Actuarial Valuation as of January 1, 2011….	21,244,900	26,224,776	4,979,876	81.0%	4,808,250	103.6%
Actuarial Valuation as of January 1, 2010….	19,019,062	24,862,421	5,843,359	76.5%	4,711,563	124.0%
Actuarial Valuation as of January 1, 2009….	16,992,214	23,723,240	6,731,026	71.6%	4,712,655	142.8%
Actuarial Valuation as of January 1, 2008….	20,400,656	22,820,502	2,419,846	89.4%	4,574,233	52.9%
Actuarial Valuation as of January 1, 2007….	18,445,225	21,670,810	3,225,585	85.1%	4,391,891	73.4%
Teachers' Retirement System						
Actuarial Valuation as of January 1, 2012….	$ 22,141,475	$ 36,483,027	$ 14,341,552	60.7%	$ 5,655,353	253.6%
Actuarial Valuation as of January 1, 2011….	23,117,952	34,890,991	11,773,039	66.3%	5,558,311	211.8%
Actuarial Valuation as of January 1, 2010….	21,262,462	33,738,966	12,476,504	63.0%	5,509,698	226.4%
Actuarial Valuation as of January 1, 2009….	18,927,731	32,543,782	13,616,051	58.2%	5,389,895	252.6%
Actuarial Valuation as of January 1, 2008….	22,883,553	30,955,504	8,071,951	73.9%	5,163,498	156.3%
Actuarial Valuation as of January 1, 2007….	20,820,392	29,320,714	8,500,322	71.0%	4,969,092	171.1%

For a complete analysis of the Commonwealth's actuarial valuation report, please go to http://www.mass.gov/perac/valuation/2011commonwealth.pdf. Alternatively, copies of the Commonwealth's actuarial valuation reports may be obtained by contacting the Massachusetts Public Employee Retirement Administration Commission, 5 Middlesex Avenue, Suite 304, Somerville, MA 02145. Telephone number: 617-666-4446.

State Retiree Benefits Trust Fund

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
Actuarial Valuation as of January 1, 2012….	$ 360,500	$ 16,659,400	$ 16,298,900	2.2%	$ 4,922,388	331.1%
Actuarial Valuation as of January 1, 2011….	350,500	16,568,600	16,218,100	2.1%	$ 4,808,250	337.3%
Actuarial Valuation as of January 1, 2010….	309,800	15,166,300	14,856,500	2.0%	4,711,563	315.3%
Actuarial Valuation as of January 1, 2009….	273,500	15,305,100	15,031,600	1.8%	4,712,655	319.0%

For a complete analysis of the Commonwealth's actuarial valuation report, please contact the Office of the State Comptroller, 1 Ashburton Place, 9th Floor, Boston, MA 02108.

See Independent Auditor's Report

Schedule of Post Employment Benefit Contributions

(Amounts in thousands except for percentages)

The following table shows the Commonwealth's annual required contribution (ARC) and percent of the ARC funded for the State Massachusetts Employees' Retirement System (SERS) and the Massachusetts Teachers' Retirement System (MTRS) for each of the past six fiscal years.

	SERS		MTRS		Total	
Fiscal Year Ended 6/30	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2012	$620,274	83.7%	$941,918	90.2%	$1,562,192	87.6%
2011	471,096	91.5%	767,960	111.4%	1,239,056	103.8%
2010	646,932	63.5%	1,106,052	62.4%	1,752,984	62.8%
2009	697,340	57.0%	781,026	67.9%	1,178,508	63.8%
2008	369,866	124.6%	749,853	107.9%	1,119,719	113.4%
2007	432,219	100.8%	763,798	97.8%	1,196,017	98.9%

The following table shows the Commonwealth's annual required contribution (ARC) and percent of the ARC funded for the State Retiree Benefits Trust Fund (SRBT) for each of the past four fiscal years.

Fiscal Year Ended 6/30	Annual Required Contribution	Percentage Contributed
2012	$1,286	43.4%
2011	1,276	43.7%
2010	1,163	32.0%
2009	1,222	28.8%

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Other Supplementary Information

Grower in Cranberry Bog

Photo courtesy of Massachusetts Office of Travel and Tourism

Combined Balance Sheet – Nonmajor Governmental Funds
Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds
Combining Statement of Net Assets Available for Pension Benefits
Combining Statement of Changes in Net Assets Available for Pension Benefits
Combining Statement of Net Assets Held in Trust for Pool Participants
Combining Statement of Changes in Net Assets Held in Trust for Pool Participants
Combining Statement of Changes in Assets and Liabilities – Agency Funds
Combining Statement of Net Assets – Nonmajor Component Units
Combining Statement of Revenues, Expenses and Changes in Net Assets –Nonmajor Component Units

Combined Balance Sheet

Other Governmental Funds

June 30, 2012

(Amounts in thousands)

	Special Revenue							
	Commonwealth Transportation	Universal Health Care	Environmental	Health Care Security Trust	MBTA State & Local Contribution	Convention and Exhibition Center	Gaming Control	Enhanced 911
ASSETS								
Cash and short-term investments	$ 855	$ 260,711	21,005	$ -	$ 82,466	$ 34,899	$ 14,181	$ 116,235
Cash with fiscal agent	7,581	-	-	-	-	94,152	-	-
Receivables, net of allowance for uncollectibles:								
Taxes	81,063	12,846	76	-	49,724	12,915	-	-
Due from federal government	-	-	563	-	-	-	-	-
Loans receivable	-	-	-	-	-	-	-	-
Other receivables	1,279	72,666	120	126,814	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-
Total assets	**$ 90,778**	**$ 346,223**	**$ 21,764**	**$ 126,814**	**$ 132,190**	**$ 141,966**	**$ 14,181**	**$ 116,235**
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	$ 855	$ 128,482	$ 489	$ -	$ 49,673	$ 12,299	$ 4	$ 14,572
Accrued payroll	-	113	293	-	-	-	32	113
Tax refunds and abatements payable	92	-	-	-	238	-	-	-
Due to other funds	-	62,815	-	-	-	-	-	-
Due to component units	67,523	-	-	-	82,279	-	-	-
Deferred revenue	-	13,532	-	-	-	-	-	-
Other accrued liabilities	-	106,578	-	-	-	-	-	-
Total liabilities	**68,470**	**311,520**	**782**	**-**	**132,190**	**12,299**	**36**	**14,685**
Fund balances (deficits):								
Nonspendable	-	-	-	-	-	-	-	-
Restricted	7,581	-	-	-	-	94,152	-	-
Committed	14,727	34,703	20,982	126,814	-	35,515	14,145	101,550
Assigned	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	-
Fund balances (deficits)	**22,308**	**34,703**	**20,982**	**126,814**	**-**	**129,667**	**14,145**	**101,550**
Total liabilities and fund balances	**$ 90,778**	**$ 346,223**	**$ 21,764**	**$ 126,814**	**$ 132,190**	**$ 141,966**	**$ 14,181**	**$ 116,235**

See Independent Auditor's Report

	Special Revenue					Capital Projects				
	Health Information Technology Trust	Grant Anticipation Note Trust	Expendable Trust	Other	Debt Service	General Capital Projects	Convention and Exhibition Center	Highway Capital Projects	Other	Total
	$ 4,396	$ 14,537	$ 571,271	$ 235,815	$ -	$ 9,104	$ 8,393	$ 33,762	$ 21	$ 1,407,651
	-	190,518	-	-	11,951	-	-	-	-	304,202
	-	-	-	9,796	-	-	-	-	-	166,420
	16,375	92,742	646	3,157	-	1,588	-	-	8,736	123,807
	-	-	914	-	-	-	-	-	-	914
	-	-	17,886	17,069	-	-	-	-	69	235,903
	-	-	-	-	-	-	-	-	92,742	92,742
	$ 20,771	**$ 297,797**	**$ 590,717**	**$ 265,837**	**$ 11,951**	**$ 10,692**	**$ 8,393**	**$ 33,762**	**$ 101,568**	**$ 2,331,639**
	$ 1,451	$ -	$ 23,241	$ 42,238	$ -	$ 197,625	$ -	$ -	$ 23	$ 470,952
	5	-	3,085	1,627	-	1,751	-	-	-	7,019
	-	-	-	-	-	-	-	-	-	330
	-	92,742	-	-	-	-	-	-	19,381	174,938
	-	-	-	-	-	2,256	-	154,215	124,089	430,362
	-	-	7,116	-	-	-	-	-	-	20,648
	-	-	-	-	-	-	-	-	-	106,578
	1,456	**92,742**	**33,442**	**43,865**	**-**	**201,632**	**-**	**154,215**	**143,493**	**1,210,827**
	-	-	914	-	-	-	-	-	-	914
	-	205,055	370,907	66,575	11,951	-	-	-	-	756,221
	19,315	-	185,454	190,430	-	-	8,393	-	12	752,040
	-	-	-	-	-	-	-	-	-	-
	-	-	-	(35,033)	-	(190,940)	-	(120,453)	(41,937)	(388,363)
	19,315	**205,055**	**557,275**	**221,972**	**11,951**	**(190,940)**	**8,393**	**(120,453)**	**(41,925)**	**1,120,812**
	$ 20,771	**$ 297,797**	**$ 590,717**	**$ 265,837**	**$ 11,951**	**$ 10,692**	**$ 8,393**	**$ 33,762**	**$ 101,568**	**$ 2,331,639**

Combined Statement of Revenues, Expenditures and Changes in Fund Balances

Other Governmental Funds

Fiscal Year Ended June 30, 2012

(Amounts in thousands)

	Special Revenue							
	Commonwealth Transportation	Universal Health Care	Environmental	Health Care Security Trust	MBTA State & Local Contribution	Convention and Exhibition Center	Gaming Control	Enhanced 911
REVENUES								
Taxes	$ 974,196	$ 145,541	$ 875	$ -	$ 779,290	$ 95,770	$ -	$ -
Assessments	21,511	354,398	-	-	152,100	-	-	-
Federal grants and reimbursements	-	-	5,103	-	-	-	-	-
Departmental	498,588	340,993	8,583	-	-	-	-	73,337
Miscellaneous	444	86,730	30	242,515	-	2,342	-	130
Total revenues	**1,494,739**	**927,662**	**14,591**	**242,515**	**931,390**	**98,112**	**-**	**73,467**
OTHER FINANCING SOURCES								
Bonds premium	-	-	-	-	-	-	-	-
Issuance of general and special obligation bonds	-	-	-	-	-	-	-	-
Issuance of refunding bonds	-	-	-	-	-	-	-	-
Transfers in for debt service	-	-	-	-	-	-	-	-
Transfers in	12,314	1,052,895	790	-	-	-	15,000	-
Total other financing sources	**12,314**	**1,052,895**	**790**	**-**	**-**	**-**	**15,000**	**-**
Total revenues and other financing sources	**1,507,053**	**1,980,557**	**15,381**	**242,515**	**931,390**	**98,112**	**15,000**	**73,467**
EXPENDITURES								
Current:								
Judiciary	-	-	-	-	-	-	-	-
Inspector General	-	298	-	-	-	-	-	-
Governor and Lieutenant Governor	-	-	-	-	-	-	-	-
Secretary of the Commonwealth	-	-	-	-	-	-	-	-
Treasurer and Receiver-General	-	-	-	-	931,390	-	-	-
Auditor of the Commonwealth	-	-	-	-	-	-	-	-
Attorney General	-	-	-	-	-	-	-	-
District Attorney	-	-	-	-	-	-	-	-
Sheriff's Departments	-	-	-	-	-	-	-	7,329
Board of Library Commissioners	-	-	-	-	-	-	-	-
Massachusetts Gaming Commission	-	-	-	-	-	-	791	-
Comptroller	-	-	-	-	-	-	-	-
Administration and finance	130,396	-	-	-	-	48,790	-	1,780
Energy and environmental affairs	-	-	11,376	-	-	-	-	-
Health and human services	-	595,084	-	-	-	-	-	75
Massachusetts department of transportation	371,408	-	-	-	-	-	-	-
Executive office of education	-	-	-	-	-	-	-	-
Public safety and homeland security	-	-	-	-	-	-	-	56,687
Housing and economic development	-	-	-	-	-	-	-	-
Labor and workforce development	-	163,185	-	-	-	-	-	-
Medicaid	-	1,200,983	-	-	-	-	-	-
Capital outlay:								
Local aid	-	-	-	-	-	-	-	-
Capital acquisition and construction	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-
Total expenditures	**501,804**	**1,959,550**	**11,376**	**-**	**931,390**	**48,790**	**791**	**65,871**
OTHER FINANCING USES								
Principal on current refundings	-	-	-	-	-	-	-	-
Transfers out	131,792	31,110	2,231	253,628	-	-	64	3,697
Transfers of appropriations	-	-	-	-	-	-	-	-
Transfers of bond proceeds	-	-	-	-	-	-	-	-
Transfers out for debt service	902,931	-	-	-	-	36,345	-	-
Total other financing uses	**1,034,723**	**31,110**	**2,231**	**253,628**	**-**	**36,345**	**64**	**3,697**
Total expenditures and other financing uses	**1,536,527**	**1,990,660**	**13,607**	**253,628**	**931,390**	**85,135**	**855**	**69,568**
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	**(29,474)**	**(10,103)**	**1,774**	**(11,113)**	**-**	**12,977**	**14,145**	**3,899**
Fund balances (deficits) at beginning of year	51,782	44,806	19,208	137,927	-	116,690	-	97,651
Fund balances (deficits) at end of year	**$ 22,308**	**$ 34,703**	**$ 20,982**	**$ 126,814**	**$ -**	**$ 129,667**	**$ 14,145**	**$ 101,550**

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Special Revenue					Capital Projects				
Health Information Technology Trust	Grant Anticipation Note Trust	Expendable Trust	Other	Debt Service	General Capital Projects	Convention and Exhibition Center	Highway Capital Projects	Other	Total
$ -	$ -	$ -	$ 93,433	$ -	$ -	$ -	$ -	$ -	$ 2,089,105
-	-	20,829	45,799	-	-	-	-	-	594,637
108,489	642,430	21,402	89,881	-	10,959	-	-	68,773	947,037
-	-	62,562	84,595	-	-	-	-	251	1,068,909
-	245	532,773	13,234	2,703	-	-	192	-	881,338
108,489	**642,675**	**637,566**	**326,942**	**2,703**	**10,959**	**-**	**192**	**69,024**	**5,581,026**
-	-	-	-	(325)	92,472	-	69,428	-	161,575
-	-	-	-	-	738,363	-	1,019,347	1,917	1,759,627
-	-	-	-	388,375	-	-	-	-	388,375
-	-	-	-	2,153,511	-	-	-	-	2,153,511
500	29,010	12,014	84,910	-	-	-	-	602,826	1,810,259
500	**29,010**	**12,014**	**84,910**	**2,541,561**	**830,835**	**-**	**1,088,775**	**604,743**	**6,273,347**
108,989	**671,685**	**649,580**	**411,852**	**2,544,264**	**841,794**	**-**	**1,088,967**	**673,767**	**11,854,373**
-	-	338	292	-	-	-	-	-	630
-	-	37	-	-	-	-	-	-	335
-	-	72	17	-	-	-	-	-	89
-	-	-	3,612	-	-	-	-	-	3,612
-	-	100,064	37,515	135,950	-	-	-	-	1,204,919
-	-	68	-	-	-	-	-	-	68
-	-	2,347	538	-	-	-	-	-	2,885
-	-	8,459	230	-	-	-	-	-	8,689
-	-	2,005	-	-	-	-	-	-	9,334
-	-	78	-	-	-	-	-	-	78
-	-	-	-	-	-	-	-	-	791
-	-	483	1,818	-	-	-	-	-	2,301
-	-	19,219	50,315	-	-	-	-	-	250,500
-	-	39,857	44,016	-	-	-	-	-	95,249
89,650	-	31,089	22,847	-	-	-	-	-	738,745
-	-	-	-	-	26,238	-	688,938	584,489	1,671,073
-	-	13,392	1,708	-	-	-	-	-	15,100
-	-	8,710	1,973	-	-	-	-	-	67,370
-	-	28,107	29,074	-	-	-	-	-	57,181
-	-	60,894	18,042	-	-	-	-	-	242,121
-	-	-	12,400	-	-	-	-	-	1,213,383
-	-	-	-	-	-	-	-	43	43
-	-	-	-	-	807,943	-	38,062	1,479	847,484
-	-	-	-	2,160,589	-	-	-	-	2,160,589
89,650	**-**	**315,219**	**224,397**	**2,296,539**	**834,181**	**-**	**727,000**	**586,011**	**8,592,569**
-	-	-	-	388,050	-	-	-	-	388,050
24	481,145	218,118	100,436	-	10,262	-	156,114	9,905	1,398,526
-	-	1,192	-	-	-	-	-	-	1,192
-	-	-	-	-	279,653	-	-	-	279,653
-	188,662	-	5,350	-	-	-	-	-	1,133,288
24	**669,807**	**219,310**	**105,786**	**388,050**	**289,915**	**-**	**156,114**	**9,905**	**3,200,709**
89,674	**669,807**	**534,529**	**330,183**	**2,684,589**	**1,124,096**	**-**	**883,114**	**595,916**	**11,793,278**
19,315	**1,878**	**115,051**	**81,669**	**(140,325)**	**(282,302)**	**-**	**205,853**	**77,851**	**61,095**
-	203,177	442,224	140,303	152,276	91,362	8,393	(326,306)	(119,776)	1,059,717
$ 19,315	**$ 205,055**	**$ 557,275**	**$ 221,972**	**$ 11,951**	**$ (190,940)**	**$ 8,393**	**$ (120,453)**	**$ (41,925)**	**$ 1,120,812**

Combining Statement of Net Assets Available for Post - Employment Benefits

Pension Trust Funds
June 30, 2012
(Amounts in thousands)

	Pension Trust Funds		OPEB Trust Fund	
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
ASSETS				
Cash and short-term investments	$ 128,550	$ 156,993	$ 1,262	$ 286,805
Investments at fair value	19,267,231	20,758,463	371,458	40,397,152
Other receivables	324,797	349,952	6,260	681,009
Total assets	**19,720,578**	**21,265,408**	**378,980**	**41,364,966**
LIABILITIES				
Accounts payable	324,565	351,784	6,235	682,584
Total liabilities	**324,565**	**351,784**	**6,235**	**682,584**
Net assets available for post - employment benefits	**$ 19,396,013**	**$ 20,913,624**	**$ 372,745**	**$ 40,682,382**

See Independent Auditor's Report

Combining Statement of Changes in Net Assets Available for Post - Employment Benefits

Pension Trust Funds

Fiscal Year Ended June 30, 2012

(Amounts in thousands)

	Pension Trust Funds		OPEB Trust Fund	
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
ADDITIONS				
Contribution:				
Employer contributions	$ 538,292	$ 939,945	$ 414,476	$ 1,892,713
Employee contributions	544,558	640,056	-	1,184,614
Total contributions	**1,082,850**	**1,580,001**	**414,476**	**3,077,327**
Net investment gain (loss):				
Investment gain (loss)	(85,987)	(97,495)	17,382	(166,100)
Less: investment expense	(26,979)	(29,065)	(1,312)	(57,356)
Net investment gain (loss)	**(112,966)**	**(126,560)**	**16,070**	**(223,456)**
Total additions	**969,884**	**1,453,441**	**430,546**	**2,853,871**
DEDUCTIONS				
Administration	8,657	14,958	15,307	38,922
Retirement benefits and refunds	1,646,861	2,330,836	410,025	4,387,722
Payments to State Boston Retirement System	-	90,399	-	90,399
Total deductions	**1,655,518**	**2,436,193**	**425,332**	**4,517,043**
Net increase(decrease)	**(685,634)**	**(982,752)**	**5,214**	**(1,663,172)**
Net assets available for post - employment benefits at beginning of year	20,081,647	21,896,376	367,531	42,345,554
Net assets available for post - employment benefits at end of year	**$ 19,396,013**	**$ 20,913,624**	**$ 372,745**	**$ 40,682,382**

See Independent Auditor's Report

Combining Statement of Net Assets Held in Trust for Pool Participants

External Investment Trust Funds
June 30, 2012
(Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust	Total
ASSETS			
Assets held in trust for pension benefits:			
Cash and short-term investments	$ -	$ 28,206	$ 28,206
Investments at fair value	-	8,301,896	8,301,896
Assets held in trust for pool participants:			
Cash and short-term investments	3,079,693	-	3,079,693
Other receivables……..	3,293	139,918	143,211
Total assets	**3,082,986**	**8,470,020**	**11,553,006**
LIABILITIES			
Liabilities:			
Accounts payable	1,449	139,355	140,804
Other accrued liablities	285	-	285
Total liabilities	**1,734**	**139,355**	**141,089**
Net assets held in trust for pool / pension participants……	**$ 3,081,252**	**$ 8,330,665**	**$ 11,411,917**

See Independent Auditor's Report

Combining Statement of Changes in Net Assets Held in Trust for Pool Participants

External Investment Trust Funds
Fiscal Year Ended June 30, 2012
(Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust	Total
ADDITIONS			
Contribution:			
Proceeds from sale of units	$ 17,738,825	$ 483,969	$ 18,222,794
Total contributions	**17,738,825**	**483,969**	**18,222,794**
Net investment gain (loss):			
Investment gain (loss)	11,370	(21,666)	(10,296)
Less: Investment expense	(2,528)	(10,833)	(13,361)
Net investment gain (loss)	**8,842**	**(32,499)**	**(23,657)**
Total additions	**17,747,667**	**451,470**	**18,199,137**
DEDUCTIONS			
Cost of units redeemed	17,596,285	458,542	18,054,827
Distributions to unit holders from net interest income	8,361	-	8,361
Total deductions	**17,604,646**	**458,542**	**18,063,188**
Net increase (decrease)	**143,021**	**(7,072)**	**135,949**
Net assets held in trust for pool / pensions participants at beginning of year	2,938,231	8,337,737	11,275,968
Net assets held in trust for pool / pensions participants at end of year	**$ 3,081,252**	**$ 8,330,665**	**$ 11,411,917**

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Combining Statement of Changes in Assets and Liabilities

Agency Funds

Fiscal Year Ended June 30, 2012

(Amounts in thousands)

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Central Agency Funds				
ASSETS				
Cash and short-term investments	$ 267,968	$ 8,270,023	$ 8,238,389	$ 299,602
Investments, restricted investments and annuity contracts	1,463,048	200,641	277,814	1,385,875
Taxes receivable	2,340	2,477	2,340	2,477
Total assets	**$ 1,733,356**	**$ 8,473,141**	**$ 8,518,543**	**$ 1,687,954**
LIABILITIES				
Accounts payable	$ 52,186	$ 3,360,399	$ 3,350,910	$ 61,675
Due to cities and towns	27,671	477,206	476,861	28,016
Due to federal government	-	48	48	-
Lottery prizes payable	1,463,048	200,641	277,814	1,385,875
Other liabilities	190,451	3,869,075	3,847,138	212,388
Total liabilities	**$ 1,733,356**	**$ 7,907,369**	**$ 7,952,771**	**$ 1,687,954**
Court Escrow and Client Accounts				
ASSETS				
Cash and short-term investments	$ 94,827	$ 1,318,222	$ 1,306,340	$ 106,709
Assets held in trust	55,360	398,679	401,512	52,527
Other receivables	115,399	117,624	115,399	117,624
Total assets	**$ 265,586**	**$ 1,834,525**	**$ 1,823,251**	**$ 276,860**
LIABILITIES				
Accounts payable	$ 237	$ 1,271,621	$ 1,261,111	$ 10,747
Agency liabilities	265,349	1,176,478	1,175,714	266,113
Total liabilities	**$ 265,586**	**$ 2,448,099**	**$ 2,436,825**	**$ 276,860**
Statutory Bonds and Deposits				
ASSETS				
Cash and short-term investments	$ 86	$ -	$ -	$ 86
Assets held in trust	641,129	459,087	432,623	667,593
Total assets	**$ 641,215**	**$ 459,087**	**$ 432,623**	**$ 667,679**
LIABILITIES				
Other liabilities	$ 641,215	$ 459,087	$ 432,623	$ 667,679
Total liabilities	**$ 641,215**	**$ 459,087**	**$ 432,623**	**$ 667,679**

See Independent Auditor's Report

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Fiscal Year Ended June 30, 2012

(Amounts in thousands)

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Total Agency Funds				
ASSETS				
Cash and short-term investments	$ 362,881	$ 9,588,245	$ 9,544,729	$ 406,397
Investments, restricted investments and annuity contracts	1,463,048	200,641	277,814	1,385,875
Assets held in trust	696,489	857,766	834,135	720,120
Taxes receivable	2,340	2,477	2,340	2,477
Other receivables	115,399	117,624	115,399	117,624
Total assets	**$ 2,640,157**	**$ 10,766,753**	**$ 10,774,417**	**$ 2,632,493**
LIABILITIES				
Accounts payable	$ 52,423	$ 4,632,020	$ 4,612,021	$ 72,422
Due to cities and towns	27,671	477,206	476,861	28,016
Due to federal government	-	48	48	-
Lottery prizes payable	1,463,048	200,641	277,814	1,385,875
Other liabilities	1,097,015	5,504,640	5,455,475	1,146,180
Total liabilities	**$ 2,640,157**	**$ 10,814,555**	**$ 10,822,219**	**$ 2,632,493**

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Combining Statement of Net Assets

Nonmajor Component Units

June 30, 2012

(Amounts in thousands)

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Massachusetts Clean Energy Center	Massachusetts Technology Park Corporation	Massachusetts Housing Partnership	Economic Development Entities	Total
ASSETS AND DEFERRED OUTFLOWS							
Current assets:							
Cash and cash equivalents	$ 27,454	$ 16,326	$ 8,921	$ 694	$ 54,834	$ 74,288	$ 182,517
Short-term investments	-	121,216	-	29,355	15,223	29,334	195,128
Restricted cash and investment	3,257	13,695	-	11,803	-	2,941	31,696
Assets held in trust	-	-	118,301	-	-	-	118,301
Receivables, net of allowance for uncollectibles:							
Federal grants and reimbursement receivable	1,300	-	-	-	-	162	1,462
Loans	248	13,174	7,057	-	20,458	10,718	51,655
Other receivables	4,585	12,489	2,606	11,905	1,488	2,224	35,297
Due from primary government	10,999	493	-	4,746	-	26,353	42,591
Inventory	-	139	-	-	-	63	202
Other current assets	1,269	2,114	208	223	-	400	4,214
Total current assets	**49,112**	**179,646**	**137,093**	**58,726**	**92,003**	**146,483**	**663,063**
Noncurrent assets:							
Cash and cash equivalents - restricted	-	30,586	46,045	-	-	-	76,631
Long - term investments	-	64,696	7,179	-	-	1,544	73,419
Restricted investments	-	-	123,787	-	-	-	123,787
Accounts receivables, net	-	4,229	-	-	-	539	4,768
Loans receivables, net	15,047	82,026	-	-	385,582	36,232	518,887
Non-depreciable capital assets	96,951	9,551	-	-	-	297	106,799
Depreciable capital assets, net	663,541	228,087	32,618	56,106	-	12,594	992,946
Other noncurrent assets	-	21,861	-	-	228	-	22,089
Total noncurrent assets	**775,539**	**441,036**	**209,629**	**56,106**	**385,810**	**51,206**	**1,919,326**
Deferred outflows from derivative instruments	-	21,643	-	-	-	-	21,643
Total assets and deferred outflows	**824,651**	**642,325**	**346,722**	**114,832**	**477,813**	**197,689**	**2,604,032**
LIABILITES							
Current liabilities:							
Accounts payable and other liabilities	11,855	5,581	15,001	16,599	1,211	26,451	76,698
Accrued payroll	-	-	76	-	-	-	76
Compensated absences	967	858	-	-	-	738	2,563
Accrued interest payable	-	-	-	-	1,317	-	1,317
Due to primary government	-	438	-	-	-	-	438
Deferred revenue	10,224	-	118,271	-	-	21,702	150,197
Bonds, notes payable and other obligations	-	3,240	-	-	19,658	5,874	28,772
Total current liabilities	**23,046**	**10,117**	**133,348**	**16,599**	**22,186**	**54,765**	**260,061**
Noncurrent liabilities:							
Compensated absences	1,150	-	-	-	-	107	1,257
Accrued interest payable	-	2,685	-	-	-	-	2,685
Due to primary government	-	14,673	-	-	-	-	14,673
Deferred revenue	-	4,592	-	-	27,309	726	32,627
Bonds, notes payable and other obligations	-	169,168	-	-	385,724	40,895	595,787
Post - employment obligations	3,509	-	-	-	-	-	3,509
Liability for derivative instruments	-	21,643	-	-	-	-	21,643
Other noncurrent liabilities	6,205	2,131	-	2,919	-	1,693	12,948
Total noncurrent liabilities	**10,864**	**214,892**	**-**	**2,919**	**413,033**	**43,421**	**685,129**
Total liabilities	**33,910**	**225,009**	**133,348**	**19,518**	**435,219**	**98,186**	**945,190**
NET ASSETS							
Invested in capital assets, net of related debt	760,493	72,880	32,618	56,106	205	12,698	935,000
Restricted for:							
Clean energy trusts	2,707	-	180,756	-	-	-	183,463
Economic develpoment financing	-	165,657	-	-	-	4,778	170,435
Other purposes	1,850	-	-	29,064	23,855	45,561	100,330
Unrestricted	25,691	178,779	-	10,144	18,534	36,466	269,614
Total net assets	**$ 790,741**	**$ 417,316**	**$ 213,374**	**$ 95,314**	**$ 42,594**	**$ 99,503**	**$ 1,658,842**

See Independent Auditor's Report

Combining Statement of Revenues, Expenses and Changes in Net Assets

Nonmajor Component Units

Fiscal Year Ended June 30, 2012

(Amounts in thousands)

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Massachusetts Clean Energy Center	Massachusetts Technology Park Corporation	Massachusetts Housing Partnership	Economic Development Entities	Total
Operating revenues:							
Charges for services	$ 49,338	$ 45,914	$ -	$ -	$ 6,802	$ 47,735	$ 149,789
Other	816	31,035	24,298	68,345	4,086	8,213	136,793
Total operating revenues	**50,154**	**76,949**	**24,298**	**68,345**	**10,888**	**55,948**	**286,582**
Operating expenses:							
Cost of services	48,538	17,808	26,109	41,035	5,332	101,038	239,860
Administration costs	26,225	57,869	6,745	103	5,065	5,282	101,289
Depreciation	40,265	12,418	1,402	559	123	939	55,706
Total operating expenses	**115,028**	**88,095**	**34,256**	**41,697**	**10,520**	**107,259**	**396,855**
Operating income (loss)	**(64,874)**	**(11,146)**	**(9,958)**	**26,648**	**368**	**(51,311)**	**(110,273)**
Nonoperating revenues (expenses):							
Operating grants	48,911	457	7,883	-	-	40,957	98,208
Interest income	453	2,160	-	139	-	112	2,864
Other nonoperating revenue (expense)	-	(912)	(4,531)	-	-	(61)	(5,504)
Nonoperating revenues (expenses), net	**49,364**	**1,705**	**3,352**	**139**	**-**	**41,008**	**95,568**
Income (loss) before contributions	**(15,510)**	**(9,441)**	**(6,606)**	**26,787**	**368**	**(10,303)**	**(14,705)**
Capital contributions	-	(10,199)	-	-	-	16,064	5,865
Other losses	-	-	-	-	-	(3,640)	(3,640)
Change in net assets	**(15,510)**	**(19,640)**	**(6,606)**	**26,787**	**368**	**2,121**	**(12,480)**
Net assets - beginning, as restated	806,251	436,956	219,980	68,527	42,226	97,382	1,671,322
Net assets - ending	**$ 790,741**	**$ 417,316**	**$ 213,374**	**$ 95,314**	**$ 42,594**	**$ 99,503**	**$ 1,658,842**

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Statistical Section

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Massachusetts General Information

Bucket of Clams
Photo courtesy of Massachusetts Office of Travel and Tourism,
Credit: Bob Schellhammer

Statistical Section Narrative and Table of Contents

This part of the Commonwealth of Massachusetts' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commonwealth's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the Commonwealth's financial performance and fiscal health has changed over time. The schedules presented from an entity wide perspective are only included from FY02 and forward, coinciding with the implementation of GASB 34. Fund perspective statements are presented for the last ten fiscal years, except where noted. Schedules included are:

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Schedule of Net Assets by Component
Last Ten Fiscal Years

(Amounts in thousands)

	2012	2011	2010*	2009*	2008*
Governmental activities					
Invested in capital assets, net of related debt	$ (849,338)	$ (722,469)	$ (885,593)	$ 189,913	$ 446,666
Restricted	1,456,715	1,520,702	1,403,877	1,377,951	1,413,968
Unrestricted	(24,905,165)	(23,631,098)	(22,891,629)	(13,721,519)	(11,022,084)
Total governmental activities net assets	**$ (24,297,788)**	**$ (22,832,865)**	**$ (22,373,344)**	**$ (12,153,655)**	**$ (9,161,450)**
Business-type activities					
Invested in capital assets, net of related debt	$ 2,366,038	$ 2,026,223	$ 1,767,434	$ 1,698,825	$ 1,562,002
Restricted	1,576,865	1,364,646	1,148,751	1,609,145	2,390,206
Unrestricted	969,309	978,043	857,263	621,952	644,363
Total business-type activities net assets	**$ 4,912,212**	**$ 4,368,912**	**$ 3,773,448**	**$ 3,929,922**	**$ 4,596,571**
Commonwealth net assets					
Invested in capital assets, net of related debt	$ 1,516,700	$ 1,303,754	$ 881,841	$ 1,888,738	$ 2,008,668
Restricted	3,033,580	2,885,348	2,552,628	2,987,096	3,804,174
Unrestricted	(23,935,856)	(22,653,055)	(22,034,366)	(13,099,567)	(10,377,721)
Total Commonwealth net assets	**$ (19,385,576)**	**$ (18,463,953)**	**$ (18,599,896)**	**$ (8,223,733)**	**$ (4,564,879)**

* Restated

2007*	2006*	2005*	2004*	2003*
$ 489,432	$ 101,510	$ 196,765	$ 2,032,958	$ 3,901,007
1,271,051	2,010,373	1,526,576	776,401	517,115
(11,357,260)	(12,409,269)	(13,267,433)	(9,150,810)	(12,523,663)
$ (9,596,777)	**$ (10,297,385)**	**$ (11,544,092)**	**$ (6,341,451)**	**$ (8,105,541)**
$ 1,392,363	$ 1,283,570	$ 1,149,352	$ 1,132,637	$ 1,073,152
2,295,507	1,816,066	1,331,053	915,583	946,704
645,211	548,774	562,777	434,007	321,523
$ 4,333,081	**$ 3,648,410**	**$ 3,043,182**	**$ 2,482,227**	**$ 2,341,379**
$ 1,881,795	$ 1,385,080	$ 1,346,117	$ 3,165,595	$ 4,974,159
3,566,558	3,826,439	2,857,629	1,691,984	1,463,819
(10,712,049)	(11,860,495)	(12,704,656)	(8,716,803)	(12,202,140)
$ (5,263,696)	**$ (6,648,975)**	**$ (8,500,910)**	**$ (3,859,224)**	**$ (5,764,162)**

Changes in Net Assets
Last Ten Fiscal Years

(Amounts in thousands)

	2012	2011	2010	2009	2008
EXPENSES					
Governmental Activities:					
General government	$ 2,391,694	$ 2,305,783	$ 2,358,706	$ 2,630,554	$ 2,321,251
Judiciary	945,457	992,990	1,043,004	1,138,179	993,424
Direct local aid	4,991,532	4,845,738	5,030,363	5,210,451	5,118,858
Medicaid	11,708,397	12,124,261	10,677,999	10,842,549	9,769,893
Group health insurance	1,218,079	1,113,544	1,092,178	977,565	828,297
Energy and environmental	572,632	685,032	326,128	426,808	537,691
Housing and economic development*	1,247,310	1,362,822	1,297,143	1,042,084	899,474
Health and human services*	7,643,950	7,124,856	7,244,968	7,452,418	6,726,961
Transportation and public works	1,765,101	2,262,374	2,088,354	1,336,257	1,199,103
Early elementary and secondary education*	4,259,568	3,649,543	3,395,360	3,210,200	2,932,143
Public safety and homeland security	2,346,958	2,276,402	2,409,557	2,561,607	2,097,076
Labor and workforce development*	474,096	497,927	483,091	474,438	340,668
Lottery	3,877,305	3,661,834	3,649,396	3,693,318	3,910,362
Interest (unallocated)	1,202,772	1,177,569	1,090,471	1,116,278	1,152,162
Total governmental activities	**44,644,851**	**44,080,674**	**42,186,717**	**42,112,704**	**38,827,362**
Business-type Activities:					
Unemployment compensation	3,466,500	4,388,360	5,435,611	3,475,027	1,554,885
Higher Education:					
University of Massachusetts	2,684,039	2,865,015	2,640,134	2,474,797	2,274,312
State Universities	851,118	834,453	762,043	736,972	733,842
Community Clleges	801,038	772,883	716,526	671,923	685,235
Total business -type activities	**7,802,695**	**8,860,711**	**9,554,314**	**7,358,719**	**5,248,274**
Total Commonwealth expenses	**$ 52,447,546**	**$ 52,941,385**	**$ 51,741,031**	**$ 49,471,424**	**$ 44,075,636**
REVENUES					
Program Revenues:					
Governmental Activities:					
Charges for services:					
General government	$ 458,320	$ 443,869	$ 464,592	$ 436,344	$ 414,614
Judiciary	114,170	120,293	128,198	123,819	124,542
Medicaid	297,566	258,032	185,463	180,380	176,471
Group health insurance	495,377	431,078	349,870	230,456	209,008
Energy and environmental	214,340	270,449	214,269	226,754	162,639
Housing and economic development*	142,320	142,387	221,340	178,011	185,019
Health and human services*	931,535	896,328	797,929	718,628	601,483
Transportation and public works	505,842	502,004	517,045	494,733	477,420
Early elementary and secondary education*	6,783	6,645	9,661	15,728	10,766
Public safety and homeland security	205,546	193,983	202,427	175,069	153,641
Labor and workforce development*	237,772	142,731	38,319	37,728	31,758
Lottery	4,940,151	4,630,205	4,626,777	4,643,592	4,905,509
Total Charges for services	8,549,722	8,038,003	7,755,891	7,461,243	7,452,873
Operating grants and contributions	12,909,908	14,217,481	12,771,164	12,059,019	9,271,936
Capital grants and contributions	79,733	168,912	779,403	853,221	484,172
Total governmental activities	**21,539,363**	**22,424,397**	**21,306,458**	**20,373,482**	**17,208,980**
Business-type Activities:					
Charges for services:					
Unemployment Compensation	1,982,602	1,945,801	1,727,964	1,671,098	1,587,543
Higher Education:					
University of Massachusetts	1,519,496	1,685,386	1,527,880	1,419,932	1,160,513
State Universities	523,979	530,078	479,900	442,685	400,369
Community Colleges	275,778	250,341	235,865	219,986	204,190
Operating grants and contributions	2,525,342	3,500,210	4,020,351	1,721,199	710,974
Total business-type activities	**6,827,197**	**7,911,816**	**7,991,960**	**5,474,900**	**4,063,589**
Total Commonwealth program revenues	**$ 28,366,560**	**$ 30,336,213**	**$ 29,298,418**	**$ 25,848,382**	**$ 21,272,569**
General Revenues and Other Changes in Net Assets (all types consolidated):					
Governmental Activities:					
Taxes (all types)	$ 21,403,426	$ 21,066,430	$ 19,034,227	$ 18,499,273	$ 21,174,430
Investment earnings and miscellaneous	1,393,094	991,230	1,474,995	1,489,018	2,057,309
Gain on sale of capital assets	-	-	-	-	-
Transfers	(1,155,955)	(860,904)	(864,697)	(1,070,652)	(1,178,030)
Transfers to \ from MassDOT	-	-	(8,983,955)	-	-
Total governmental activities	**21,640,565**	**21,196,756**	**10,660,570**	**18,917,639**	**22,053,709**
Business-type Activities:					
Investment earnings and miscellaneous	$ 376,327	$ 695,308	$ 553,088	$ 140,227	$ 270,145
Other losses	-	(10,746)	(12,125)	(11,530)	-
Transfers	1,155,955	860,904	864,697	1,070,652	1,178,030
Total business -type activities	**1,532,282**	**1,545,466**	**1,405,660**	**1,199,349**	**1,448,175**
Total Commonwealth general revenues	**$ 23,172,847**	**$ 22,742,222**	**$ 12,066,230**	**$ 20,116,988**	**$ 23,501,884**
CHANGES IN NET ASSETS					
Governmental activities	$ (1,464,923)	$ (459,521)	$ (10,219,688)	$ (2,821,583)	$ 435,327
Business-type activities	556,784	596,571	(156,694)	(684,470)	263,490
Current year restatements	-	-	-	(152,800)	-
Total changes in net assets including restatements	**$ (908,139)**	**$ 137,050**	**$ (10,376,382)**	**$ (3,658,854)**	**$ 698,817**

* NOTE: Reflects departmental and functional reorganizations as of the year implemented. Prior years not restated.

2007	2006	2005	2004	2003
$ 2,198,999	$ 2,043,365	$ 1,861,827	$ 2,084,482	$ 1,870,365
852,124	731,931	694,245	570,228	641,227
5,081,359	4,682,027	4,525,847	4,877,089	5,118,711
9,044,420	8,150,576	7,705,717	6,909,412	6,177,280
1,033,796	970,150	872,970	778,072	732,252
488,883	438,731	419,329	379,710	395,713
519,399	670,518	609,409	593,000	590,246
6,414,249	6,585,029	6,441,959	5,940,586	5,778,186
1,271,608	1,286,857	1,566,773	1,569,678	2,053,939
1,870,250	1,948,769	8,226,508	1,251,618	1,427,482
1,763,191	1,768,924	1,638,434	1,477,469	1,384,537
641,134	387,132	358,839	387,590	430,982
3,689,221	3,708,713	3,692,520	3,606,608	3,470,046
1,079,551	985,474	861,265	788,908	739,463
35,948,184	**34,358,196**	**39,488,186**	**31,214,448**	**30,810,430**
1,430,130	1,337,565	1,662,955	2,461,293	2,589,107
2,233,634	2,116,226	1,977,546	1,597,676	1,531,381
624,470	568,592	514,122	456,022	425,154
627,400	592,310	548,017	525,179	523,403
4,915,634	**4,614,693**	**4,702,640**	**5,040,170**	**5,069,045**
$ 40,863,818	**$ 38,972,889**	**$ 44,190,826**	**$ 36,254,618**	**$ 35,879,475**
$ 564,347	$ 451,753	$ 492,750	$ 463,132	$ 233,135
118,652	115,443	105,072	101,994	74,412
172,136	702,104	937,422	687,535	26,772
151,604	131,611	111,342	98,598	93,529
168,789	156,074	138,854	152,632	132,531
1,892	6,245	3,515	1,446	1,373
538,543	613,780	756,469	861,899	966,813
461,217	448,349	478,154	13,687	7,813
8,042	6,346	5,583	11,644	5,073
126,962	135,846	112,350	564,023	520,496
187,256	213,078	199,817	179,794	168,471
4,656,110	4,726,339	4,698,935	4,603,204	4,421,621
7,155,550	7,706,968	8,040,263	7,739,588	6,652,039
8,849,046	8,347,822	7,961,904	8,017,469	7,129,712
487,365	481,780	461,371	602,449	508,235
16,491,961	**16,536,570**	**16,463,538**	**16,359,506**	**14,289,986**
1,698,249	1,741,101	242,769	1,481,803	940,475
1,194,393	1,076,875	424,184	822,668	678,812
287,195	272,918	64,872	222,740	182,428
190,808	175,418	122,828	165,257	141,480
746,385	684,108	854,653	1,376,666	1,249,768
4,117,030	**3,950,420**	**4,108,237**	**4,069,134**	**3,192,962**
$ 20,608,991	**$ 20,486,988**	**$ 20,571,775**	**$ 20,428,640**	**$ 17,482,948**
$ 20,001,189	$ 18,668,322	$ 17,580,271	$ 16,406,781	$ 15,161,687
1,318,008	1,396,033	1,168,540	1,042,704	1,179,686
-	26,300	-	-	-
(1,167,367)	(1,022,320)	(926,715)	(830,453)	(950,217)
-	-	-	-	-
20,151,830	**19,068,335**	**17,822,096**	**16,619,032**	**15,391,156**
$ 315,908	247,181	228,643	181,719	207,296
-	-	-	-	-
1,167,367	1,022,320	926,715	830,453	950,217
1,483,275	**1,269,501**	**1,155,358**	**1,012,172**	**1,157,513**
$ 21,635,105	**$ 20,337,836**	**$ 18,977,454**	**$ 17,631,205**	**$ 16,548,670**
$ 695,608	$ 1,246,707	$ (5,202,551)	$ 1,764,090	$ (1,129,287)
684,671	605,228	560,955	41,136	(718,570)
-	-	-	-	-
$ 1,380,279	**$ 1,851,935**	**$ (4,641,596)**	**$ 1,805,226**	**$ (1,847,857)**

Fund Balances, Governmental Funds
Last Ten Fiscal Years

(Modified accrual basis of accounting)

(Amounts in thousands)

	2012	2011	2010*	2009*	2008*
Total Unreserved general fund……	**$ -**	**$ -**	**$ -**	**$ 1,734,822**	**$ 3,171,278**
All Other Governmental Funds					
Reserved……	-	-	-	1,401,985	1,809,058
Unreserved:					
Special Revenue Funds……	-	-	-	2,044,674	2,437,897
Capital Projects Funds……	-	-	-	(125,138)	(360,570)
Permanent Trust Funds……	-	-	-	5,000	5,000
Total Unreserved……	-	-	-	1,924,535	2,082,327
Total all other governmental funds……	**-**	**-**	**-**	**3,326,520**	**3,891,385**
Total governmental fund balances……	**$ -**	**$ -**	**$ -**	**$ 5,061,342**	**$ 7,062,663**

* 2010 has been restated for GASB 54 presentation. Years prior have not been restated.

Fund balances (deficits) GASB54 :			
Nonspendable……	$ 914	$ 914	$ 5,914
Restricted……	2,195,287	1,675,055	1,905,749
Commited……	2,404,158	2,020,009	2,166,175
Assigned……	574,621	750,462	156,483
Unassigned……	1,143,978	821,188	351,395
Total governmental fund balances……	**$ 6,318,958**	**$ 5,267,628**	**$ 4,585,716**

2007*	2006*	2005*	2004*	2003*
$ 4,899,154	**$ 4,922,074**	**$ 4,067,885**	**$ 2,497,447**	**$ 1,309,917**
1,496,094	1,361,980	1,392,209	2,204,552	1,680,261
1,587,596	1,476,440	91,913	330,353	234,754
(251,985)	(497,300)	(503,441)	(607,946)	(1,203,914)
5,000	-	-	-	-
1,340,611	979,140	(411,528)	(277,593)	(969,160)
2,836,705	**2,341,120**	**980,681**	**1,926,959**	**711,101**
$ 7,735,859	**$ 7,263,194**	**$ 5,048,566**	**$ 4,424,406**	**$ 2,021,018**

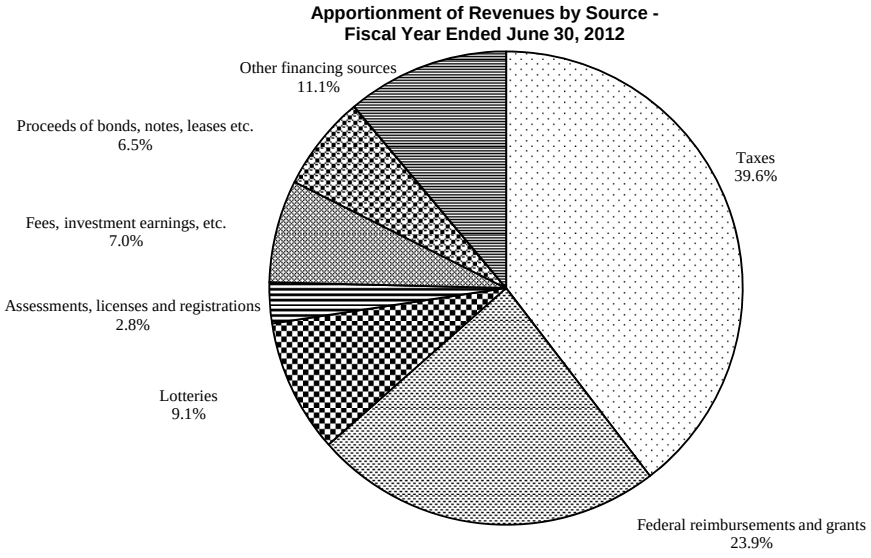
Ten-Year Schedule of Revenues and Other Financing Sources

All Governmental Fund Types - Fund Perspective

(Modified Accrual Basis of Accounting)

(Amounts in millions)

	2012	% Total	2011	% Total	2010	% Total	2009	% Total	2008	% Total
Taxes	$ 21,533	39.6	$ 20,854	38.7	$ 18,991	37.3	$ 18,354	36.9	$ 21,120	42.1
Federal reimbursements	8,934	16.4	10,066	18.8	9,453	18.5	9,392	18.9	7,037	14.0
Federal grants	4,051	7.5	4,311	8.0	4,097	8.0	3,510	7.0	2,681	5.4
Lotteries	4,944	9.1	4,631	8.6	4,628	9.1	4,650	9.3	4,915	9.8
Assessments	1,024	1.9	980	1.8	965	1.9	929	1.9	858	1.7
Motor vehicle licenses and registrations	474	0.9	461	0.9	463	0.9	383	0.8	376	0.7
Fees, investment earnings, etc	3,823	7.0	3,246	6.0	3,365	6.6	3,204	6.4	3,546	7.1
Proceeds of general and special obligation bonds	3,162	5.8	2,233	4.1	2,419	4.7	2,042	4.1	1,281	2.6
Proceeds of refunding bonds	388	0.7	888	1.6	538	1.1	390	0.8	-	-
Proceeds of capital lease	4	-	12	-	17	-	18	-	17	-
Other financing sources	6,033	11.1	6,216	11.5	6,043	11.9	6,916	13.9	8,305	16.6
Total revenues and other financing sources	$ 54,370	100.0	$ 53,898	100.0	$ 50,979	100.0	$ 49,788	100.0	$ 50,136	100.0



2007	% Total	2006	% Total	2005	% Total	2004	% Total	2003	% Total
$ 19,985	40.5	$ 18,754	39.7	$ 17,671	40.6	$ 16,133	36.4	$ 15,091	35.3
6,847	13.9	6,350	13.5	6,053	13.9	6,284	14.2	5,522	12.9
2,489	5.0	2,479	5.3	2,369	5.4	2,336	5.3	2,112	4.9
4,670	9.5	4,739	10.0	4,705	10.8	4,605	10.4	4,423	10.3
860	1.7	850	1.8	831	1.9	773	1.7	645	1.5
380	0.8	361	0.8	401	0.9	376	0.8	383	0.9
2,875	5.8	3,270	7.0	3,213	7.5	3,028	6.8	2,331	5.4
3,181	6.4	4,492	9.5	1,354	3.1	1,993	4.5	1,911	4.5
1,428	2.9	633	1.3	1,385	3.2	3,302	7.4	3,398	7.9
21	-	30	0.1	58	0.1	11	-	-	-
6,666	13.5	5,232	11.1	5,493	12.6	5,531	12.5	6,981	16.3
$ 49,402	100.0	$ 47,190	100.0	$ 43,533	100.0	$ 44,372	100.0	$ 42,796	100.0

Ten-Year Schedule of Expenditures and Other Financing Uses by Secretariat

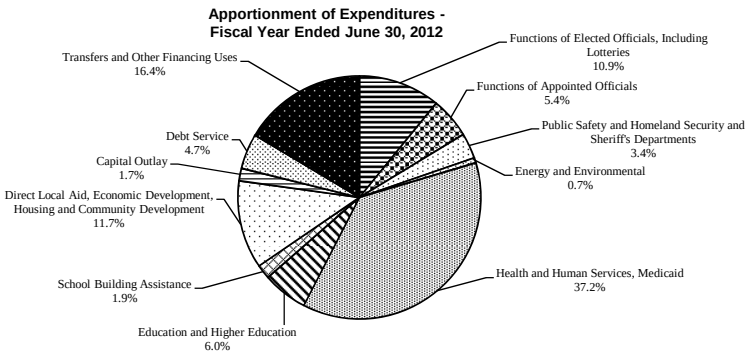
All Governmental Fund Types - Fund Perspective

(Modified Accrual Basis of Accounting)

(Amounts in millions)

	2012	% Total	2011	% Total	2010	% Total	2009	% Total	2008	% Total
Legislature	$ 58	0.1	$ 58	0.1	$ 59	0.1	$ 60	0.1	$ 58	0.1
Judiciary	757	1.4	771	1.4	769	1.5	797	1.5	796	1.6
Inspector General	3	-	4	0.0	4	0.0	3	0.0	3	0.0
Governor and Lieutenant Governor	7	-	5	0.0	5	0.0	8	0.0	9	0.0
Secretary of the Commonwealth	41	0.1	45	0.1	52	0.1	51	0.1	51	0.1
Treasurer and Receiver-General	5,282	9.9	5,084	9.6	4,862	9.4	5,097	9.8	5,089	10.0
Auditor of the Commonwealth	17	-	18	0.0	18	0.0	19	0.0	19	0.0
Attorney General	55	0.1	34	0.1	52	0.1	53	0.1	45	0.1
Ethics Commission	2	-	2	0.0	2	0.0	2	-	2	-
District Attorney	110	0.2	104	0.2	102	0.2	112	0.2	111	0.2
Office of Campaign and Political Finance	1	-	3	0.0	1	0.0	1	-	1	-
Sheriff's Department	529	1.0	514	1.0	394	0.8	296	0.6	295	0.6
Disabled Persons Protection Commission	2	-	2	0.0	2	0.0	3	-	2	-
Board of Library Commissioners	24	-	25	0.0	28	0.1	37	0.1	36	0.1
Massachusetts Gaming Commission	1	-	-	-	-	-	-	-	-	-
Comptroller	14	-	14	0.0	13	0.0	14	0.0	14	0.0
Administration and finance	1,949	3.7	1,852	3.3	1,686	3.3	1,709	3.4	1,528	3.1
Energy and environmental	351	0.7	368	0.7	403	0.8	352	0.7	312	0.6
Housing and communities development	-	-	-	-	-	-	-	-	-	-
Early education and care	-	-	-	-	-	-	-	-	560	1.1
Health and human services	7,301	13.6	6,791	12.8	6,655	12.9	6,684	12.9	6,423	12.6
Transportation and public works	-	-	-	-	474	0.9	389	0.8	347	0.7
Massachusetts department of transportation	1,679	3.1	2,086	3.9	1,209	2.3	-	-	-	-
Executive office of education*	3,069	5.8	3,232	6.1	2,968	5.8	2,920	5.6	2,205	4.3
Massachusetts school building assistance	975	1.8	791	1.5	973	1.9	657	1.3	765	1.5
Higher education	-	-	-	-	-	-	-	-	131	0.3
Public safety and homeland security	1,208	2.3	1,146	2.2	1,282	2.5	1,416	2.7	1,407	2.8
Housing and economic development*	999	1.9	1,082	2.0	1,060	2.1	793	1.5	710	1.4
Labor and workforce development*	455	0.9	478	0.9	447	0.9	398	0.8	308	0.6
Elder affairs*	-	-	-	-	-	-	-	-	-	-
Consumer affairs*	-	-	-	-	-	-	-	-	-	-
Labor*	-	-	-	-	-	-	-	-	-	-
Medicaid	11,708	22.0	12,124	22.8	10,678	20.8	10,843	20.9	9,770	19.2
Pension	801	1.5	744	1.4	587	1.1	647	1.2	368	0.7
Direct local aid	4,991	9.4	4,846	9.1	5,030	9.8	5,208	10.1	5,108	10.1
Capital outlay:										
Local aid	-	-	-	-	1	-	3	0.0	10	0.0
Capital acquisition and construction	847	1.6	885	1.7	1,300	2.5	2,514	4.9	1,698	3.3
Debt service	2,504	4.7	2,220	4.2	2,407	4.7	2,410	4.7	2,486	4.9
Other financing uses:										
Payments to refunded bond escrow agent/principal on current refunding	388	0.7	945	1.8	537	1.0	410	0.8	-	-
Transfers	7,189	13.5	6,947	13.1	7,395	14.4	7,887	15.2	10,141	20.0
Total expenditures and other financing uses	$ 53,319	100.0	$ 53,217	100.0	$ 51,455	100.0	$ 51,789	100.0	$ 50,810	100.0
Change in Governmental Fund Balance	$ 1,051		$ 681		$ (476)		$ (2,001)		$ (674)	

* NOTE: Reflects departmental and functional reorganizations as of the year implemented. Prior years not restated.


Apportionment of Expenditures - Fiscal Year Ended June 30, 2012
Functions of Elected Officials, Including Lotteries 10.9%
Functions of Appointed Officials 5.4%
Public Safety and Homeland Security and Sheriff's Departments 3.4%
Energy and Environmental 0.7%
Health and Human Services, Medicaid 37.2%
Education and Higher Education 6.0%
School Building Assistance 1.9%
Direct Local Aid, Economic Development, Housing and Community Development 11.7%
Capital Outlay 1.7%
Debt Service 4.7%
Transfers and Other Financing Uses 16.4%

2007	% Total	2006	% Total	2005	% Total	2004	% Total	2003	% Total
$ 59	0.1	$ 55	0.1	$ 50	0.1	$ 51	0.1	$ 53	0.1
799	1.6	660	1.5	580	1.4	577	1.4	568	1.3
3	0.0	3	0.0	3	-	2	-	2	-
5	0.0	5	0.0	5	-	5	-	5	-
52	0.1	44	0.1	46	0.1	43	0.1	39	0.1
4,712	9.6	4,803	10.7	4,706	11.0	4,535	10.8	4,446	10.3
18	0.0	18	0.0	16	-	16	-	16	-
62	0.1	52	0.1	70	0.2	52	0.1	55	0.1
2	-	1	-	1	-	1	-	1	-
102	0.2	94	0.2	84	0.2	86	0.2	85	0.2
2	-	1	-	1	-	1	-	1	0.0
272	0.6	247	0.5	216	0.5	218	0.5	215	0.5
2	-	2	-	2	-	2	-	2	0.0
10	0.0	8	0.0	7	-	6	-	6	-
-	-	-	-	-	-	-	-	-	-
14	0.0	14	0.0	12	-	8	-	8	-
1,849	3.9	1,651	3.9	1,536	3.5	1,508	3.6	1,202	2.9
318	0.6	282	0.6	238	0.6	225	0.5	236	0.5
402	0.8	536	1.2	483	1.1	470	1.1	476	1.1
518	1.1	482	1.1	-	-	-	-	-	-
5,907	12.1	5,865	13.0	6,208	14.5	5,868	14.0	5,327	12.3
350	0.7	282	0.6	316	0.7	189	0.5	218	0.5
-	-	-	-	-	-	-	-	-	-
2,048	4.2	1,978	4.4	2,990	7.0	1,587	3.8	1,546	3.6
1,411	2.9	2,330	5.2	-	-	-	-	-	-
126	0.3	106	0.2	114	0.3	99	0.2	111	0.3
1,238	2.5	1,165	2.6	1,053	2.5	1,039	2.5	991	2.3
512	1.0	384	0.9	346	0.8	376	0.9	29	0.1
81	0.2	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	315	0.7
-	-	-	-	-	-	-	-	55	0.1
-	-	-	-	-	-	-	-	330	0.8
9,044	18.5	8,151	18.1	7,706	18.0	6,909	16.5	6,177	14.3
373	0.8	346	0.8	439	1.0	212	0.5	290	0.7
5,072	10.4	4,674	10.4	4,515	10.5	4,861	11.6	5,103	11.8
9	0.0	8	0.0	11	-	16	-	15	-
1,724	3.5	1,754	3.9	1,863	4.3	2,120	5.1	2,526	5.8
2,538	5.2	2,088	4.6	1,719	4.0	1,605	3.8	1,467	3.4
1,520	3.1	633	1.4	1,153	2.7	2,833	6.8	3,398	7.9
7,781	15.9	6,253	13.9	6,419	15.0	6,448	15.4	7,931	18.3
$ 48,935	100.0	$ 44,975	100.0	$ 42,908	100.0	$ 41,968	100.0	$ 43,245	100.0
$ 467		$ 2,215		$ 624		$ 2,403		$ (447)	

Personal Income by Industry
Last Ten Calendar Years

(Amounts in millions)

	2011	2010	2009	2008	2007
Total personal income	**$ 352,243**	**$ 336,400**	**$ 324,680**	**$ 335,722**	**$ 322,543**
Unearned income	83,338	81,190	78,336	80,365	71,529
Farm earnings	136	186	137	180	135
Nonfarm earnings	268,769	255,024	246,208	255,176	250,878
Private earnings	**236,763**	**223,784**	**215,396**	**225,122**	**222,302**
Agricultural services, forestry, fishing	409	383	376	383	405
Mining	124	97	101	181	301
Construction	12,526	11,687	11,717	13,671	14,900
Manufacturing	**25,387**	**25,108**	**23,290**	**25,449**	**25,865**
Durable goods	18,319	18,053	16,466	18,170	18,464
Nondurable goods	7,069	7,055	6,824	7,280	7,401
Transportation and utilities	6,604	6,208	6,029	6,235	5,891
Wholesale trade	13,082	12,501	12,458	13,412	13,025
Retail trade	12,891	12,599	12,255	12,545	12,960
Services	165,740	155,202	149,171	153,246	148,954
Government	**32,006**	**31,240**	**30,812**	**30,054**	**28,577**
Federal, civilian	5,426	5,431	5,314	5,157	5,045
Military	1,245	1,260	1,220	1,092	1,025
State and local	25,335	24,550	24,278	23,806	22,507
Personal income tax revenue (fiscal year, statutory basis)	$ 11,576	$ 10,110	$ 10,584	$ 12,484	$ 11,400
Total personal income	$ 352,243	$ 336,400	$ 324,680	$ 335,722	$ 322,543
Average Effective Rate	3.3%	3.0%	3.3%	3.7%	3.5%
Highest Earned Income Tax Rate	5.3%	5.3%	5.3%	5.3%	5.3%

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System and the Massachusetts Department of Revenue. Average effective rate is individual income tax revenue divided by personal income.

Note: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System adjusted its methodology in 2008. Prior years restated.

2006	2005	2004	2003	2002
$ 304,855	**$ 282,368**	**$ 271,086**	**$ 258,600**	**$ 254,103**
65,384	55,211	51,966	52,227	51,123
131	126	147	132	131
239,340	227,030	218,974	206,242	202,849
211,900	**200,639**	**193,996**	**182,312**	**179,478**
396	400	371	315	299
363	311	297	318	284
15,193	14,460	13,976	13,223	13,301
24,698	**24,485**	**24,356**	**24,159**	**24,560**
17,639	17,539	17,547	17,175	17,772
7,059	6,947	6,809	6,984	6,787
5,706	5,456	5,388	5,226	5,141
12,538	11,478	11,529	10,887	10,373
12,952	13,188	12,900	12,472	11,919
140,056	130,864	125,180	115,712	113,603
27,439	**26,392**	**24,978**	**23,930**	**23,370**
4,873	4,700	4,626	4,319	4,216
1,005	1,009	934	897	733
21,561	20,683	19,419	18,714	18,423
$ 10,483	$ 9,690	$ 8,830	$ 8,026	$ 7,913
$ 304,855	$ 282,368	$ 271,086	$ 258,600	$ 254,103
3.4%	3.4%	3.3%	3.1%	3.1%
5.3%	5.3%	5.3%	5.3%	5.3%

Commonwealth of Massachusetts
Personal Income Tax Filers and Liability by Income Level
Calendar (Tax) Years 2010 and 2001

(Amounts, except income level are in thousands)

Calendar Year 2010 (or Fiscal Year 2011)

Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
$100,001 and higher	594,699	17.1%	$ 7,275,446	67.3%
$75,001 - $100,000	283,442	8.1%	1,061,090	9.8%
$50,001 - $75,000	452,897	13.0%	1,153,154	10.7%
$25,001 - $50,000	768,816	22.1%	1,014,856	9.4%
$10,001 - $25,000	667,123	19.2%	268,176	2.5%
$10,000 and lower	712,284	20.5%	28,389	0.3%
Total	3,479,261	100.0%	$ 10,801,111	100.0%

Calendar Year 2001 (or Fiscal Year 2002)

Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
$100,001 and higher	392,940	11.7%	$ 4,146,368	52.8%
$75,001 - $100,000	269,025	8.0%	1,017,446	12.9%
$50,001 - $75,000	457,963	13.7%	1,195,224	15.2%
$25,001 - $50,000	844,532	25.2%	1,174,501	14.9%
$10,001 - $25,000	697,666	20.8%	309,926	3.9%
$10,000 and lower	684,687	20.6%	22,630	0.3%
Total	3,346,813	100.0%	$ 7,866,095	100.0%

Source: Massachusetts Department of Revenue - 2010 is the most recent tax year for which complete data are available.

Ten -Year Schedule of Per Capita General Long-Term Bonded Debt and Capital Leases

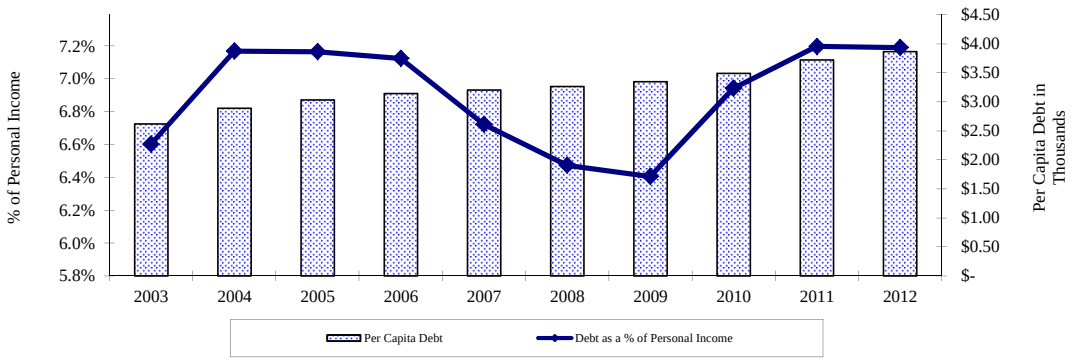
(Amounts in thousands, except for percentages)

Fiscal year ended June 30	Governmental Activities Bonded Debt [2]	Governmental Activities Capital Leases [2]	Business-Type Activities Bonded Debt [2]	Business-Type Activities Capital Leases [2]	Total Primary Government	Prior Year Personal Income	Massachusetts Resident Population [1]	Debt as a Percentage of Personal Income	Amount of Debt Per Capita
2012	$ 21,907,683	$ 60,457	$ 3,370,389	$ 23,327	$ 25,361,856	$ 352,242,750	6,557	7.2%	$ 3.87
2011	20,875,055	60,975	3,277,413	31,105	24,244,548	336,399,750	6,518	7.2%	3.72
2010	19,726,507	76,608	2,731,124	40,924	22,575,163	324,680,250	6,469	7.0%	3.49
2009	19,264,569	109,765	2,103,675	58,885	21,536,894	335,721,500	6,432	6.4%	3.35
2008	18,734,440	83,741	2,026,551	67,631	20,912,363	322,542,500	6,410	6.5%	3.26
2007	18,736,961	81,351	1,624,617	83,443	20,526,372	304,855,000	6,410	6.7%	3.20
2006	18,461,406	74,552	1,519,727	87,798	20,143,483	282,367,750	6,403	7.1%	3.15
2005	17,856,799	71,018	1,421,557	101,596	19,450,970	271,086,000	6,412	7.2%	3.03
2004	17,382,172	57,900	1,049,095	73,971	18,563,138	258,600,250	6,423	7.2%	2.89
2003	15,962,506	75,754	673,398	91,934	16,803,592	254,102,750	6,417	6.6%	2.62

(1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of 7/1 of the previous year
Source: - HTTP://www.fedstats.gov (US Census Bureau.)

(2) Excludes Massachusetts School Building Authority debt. Amounts of bonded debt for governmental activities are the amount of debt for statutory debt calculation purposes. Capital leases above exclude the lease between the Commonwealth and the Route 3 North Transportation Improvement Association, a discretely presented component unit. Business - Type Activities includes notes payable of Institutions of Higher Education.

Ten- Year Per Capita Debt and Capital Leases

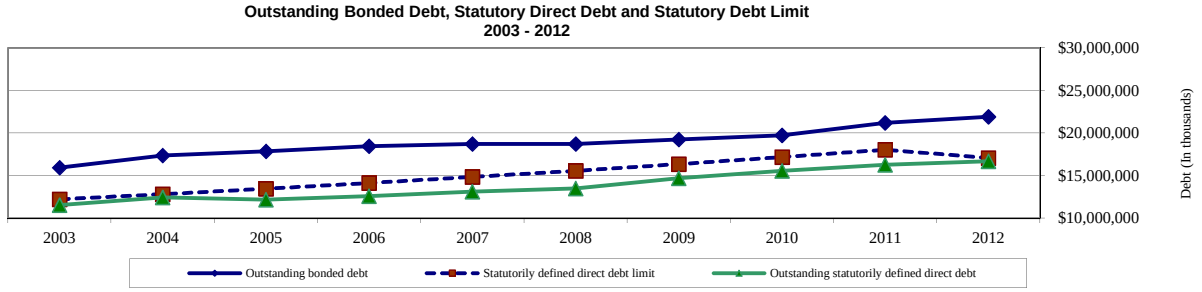


Ten-Year Schedule of Outstanding Direct Debt and Statutory Debt Limit

(Amounts in thousands)

	2012	2011	2010	2009	2008
Outstanding debt for statutory purposes as of June 30 (1).....	$ 21,907,683	$ 21,210,134	$ 19,726,507	$ 19,264,569	$ 18,734,440
Less amounts excluded by statute:					
Central artery project bonds net proceeds.....	(1,342,841)	(1,356,606)	(1,243,250)	(1,401,581)	(1,434,654)
Accelerated bridge program.....	(1,095,385)	(676,125)	-	-	-
County debt assumed.....	(75)	(150)	(225)	(300)	(375)
(Premium)/discount and issuance costs.....	(474,130)	(335,078)	216,688	216,890	123,335
Grant anticipation notes (GANs) net proceeds(2).....	(510,385)	(666,790)	(997,467)	(1,134,797)	(1,536,206)
School Modernization and Reconstruction Trust bonds.....	(795,009)	(824,279)	(894,502)	(921,751)	(946,285)
Convention center bonds net proceeds……	(638,700)	(643,715)	(643,715)	(643,715)	(643,715)
MBTA forward funding bonds net proceeds……	(207)	(44,472)	(165,559)	(231,000)	(309,203)
Special obligation gas bonds net proceedes.....	(337,545)	(371,665)	(419,785)	(456,984)	(482,953)
Outstanding statutorily defined direct debt.....	$ 16,713,406	$ 16,291,254	$ 15,578,692	$ 14,691,332	$ 13,504,384
Statutorily defined direct debt limit*.....	$ 17,070,000	$ 18,042,424	$ 17,183,261	$ 16,365,011	$ 15,585,725
Debt margin (debt limit less direct debt).....	$ 356,594	$ 1,839,771	$ 1,604,569	$ 1,673,679	$ 2,081,341
Debt margin as a percentage of direct debt limit.....	2.1%	10.2%	9.3%	10.2%	13.4%

(1) Exclusive of the Massachusetts School Building Authority debt.
(2) Inclusive of crossover refunding amounts.
* Section 60A of Chapter 165 of the Acts of 2012, as amended, reset the statutorily defined debt limit, effective July 1, 2011, to $17.070 billion.



2007	2006	2005	2004	2003
$ 18,736,961	$ 18,461,406	$ 17,856,799	$ 17,382,172	$ 15,962,506
(1,462,870)	(1,476,287)	(1,336,741)	(1,066,638)	(1,386,869)
-	-	-	-	(10,600)
(450)	(525)	(600)	(675)	(855)
102,048	112,673	70,937	1,120	(68,718)
(1,666,690)	(1,789,876)	(1,908,015)	(1,908,015)	(1,500,000)
(946,285)	(1,000,002)	(500,000)	-	-
(643,715)	(643,715)	(693,400)	-	-
(368,873)	(416,830)	(511,546)	(601,027)	(680,869)
(617,226)	(647,551)	(792,148)	(1,347,882)	(748,124)
$ 13,132,900	$ 12,599,293	$ 12,185,286	$ 12,459,055	$ 11,566,472
$ 14,843,547	$ 14,136,712	$ 13,463,535	$ 12,822,414	$ 12,211,823
$ 1,710,647	$ 1,537,418	$ 1,278,249	$ 363,359	$ 645,352
11.5%	10.9%	9.5%	2.8%	5.3%

Ten Year Schedule of Pledged Revenue Coverage

Special Obligation Highway Bonds (Motor Fuels Taxation and Motor Vehicle Fees), Convention Center Bonds (Tax Incremental Financing) and Grant Anticipation Notes (Federal Highway Grants)

(Statutory Basis, Amounts in Thousands, Except for Federal Highway Appropriations which are in Billions and on a federal fiscal year and Except for Ratios)

	2012	2011	2010	2009
Highway Bonds				
For issues prior to December 2010, the bonds are secured by a pledge of 6.86¢ of the 21¢ per gallon state gasoline excise tax for FY2008 and before. For FY2009 and beyond, the pledge is up to 10¢ of the tax. Bonds issued in December 2010 and May 2012 are secured by a senior lien on 14.085 cents of the total 21 cent per gallon gasoline tax, the full 21 cents per gallon of special fuels taxes (comprised primarily of taxes on diesel fuel), the full 19.1% of the average price per gallon tax on liquefied natural gas, and all Registry of Motor vehicle fees deposited in the Commonwealth Transportation Fund. The bonds also have a subordinate lien on 6.86¢ of the 21¢ per gallon gasoline tax not included in the senior lien. Revenues pledged to the bonds are available prior to use for any other purposes. Thus, operating expenses paid from the these revenue sources are not applicable for the purpose of calculating debt service coverage ratios and are not shown in this table. The 2010 bonds were issued as federally taxable Build America Bonds/Recovery Zone Economic Development Bonds; the programs provide an interest subsidy of 35-45% directly to the Commonwealth. The interest subsidy is shown as pledged funds and debt service is gross of the subsidy.				
Pre-2010 Bond Issues				
Tax Receipts	$ 190,129	$ 189,763	$ 188,666	$ 189,246
Operating Expenses	N/A	N/A	N/A	N/A
Net Available Revenues	$ 190,129	$ 189,763	$ 188,666	$ 189,246
Annual Debt Service	$ 58,939	$ 59,453	$ 58,931	$ 58,924
Debt Service Coverage Ratio	3.23	3.19	3.20	3.21
Ratings History of Bonds*	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA
Post-2010 Bond Issues (Includes Revenues in Excess of Those Needed to Pay Debt Service on Pre-2010 Highway Bonds)				
Receipts	$ 1,121,709	$ 626,619		
Operating Expenses	N/A	N/A		
Net Available Revenues	$ 1,121,709	$ 626,619		
Annual Debt Service	$ 20,309	$ 14,318		
Debt Service Coverage Ratio	55.23	43.76		
Ratings History of Bonds*	AAA, Aaa, AAA	AAA, Aaa, AAA		
Convention Center Bonds				
These bonds are secured by amounts payable to the Convention Center Fund, which include certain hotel tax receipts in Boston, Cambridge, Springfield, surcharges on car rentals, parking, sightseeing tours and cruises and sales tax receipts those cities. Revenues pledged to the bonds are available prior to use for any other purposes. Thus, operating expenses paid from the these revenue sources are not applicable for the purpose of calculating debt service coverage rations and are not shown in this table.				
Receipts	$ 94,234	$ 84,905	$ 75,432	$ 73,918
Operating Expenses	N/A	N/A	N/A	N/A
Net Available Revenues	$ 94,234	$ 84,905	$ 75,432	$ 73,918
Annual Debt Service	$ 36,345	$ 35,391	$ 36,296	$ 36,293
Debt Service Coverage Ratio	2.59	2.40	2.08	2.04
Ratings History of Bonds*	A2, A	A2, A	A2, A	A2, A
Grant Anticipation Notes (GANS)				
Notes issued prior to December 2010 ("Senior Federal Highway Highway Notes") are secured by all federal highway reimbursements into the Grant Anticipation Note Trust fund, released by the Commonwealth once all debt service and reserve funding obligations of the notes have been met. If the United States Congress reduces the aggregate amount appropriated nationwide for federal highway spending to less than $17.1 billion and debt service coverage with respect to the notes falls below 120%, then the legislation further pledges that 10¢ per gallon of existing motor fuel tax collections will be deposited into the trust fund to be used for debt service, subject to appropriation. Notes issued in December 2010 ("Federal Highway Grant Anticipation Notes") are secured by all federal highway reimbursements after payment of debt service on the Senior Federal Highway Notes and also by any revenues pledged to the payment of pre-2010 and December 2010 Highway Bonds (as described above) in excess of debt service paid on those bonds. Revenues pledged to the notes are available prior to use for any other purposes. Thus, operating expenses paid from the these revenue sources are not applicable for the purpose of calculating debt service coverage rations and are not shown in this table. The 2010 bonds were issued as federally taxable Build America Bonds; the program provides an interest subsidy of 35% directly to the Commonwealth. The interest subsidy is shown as pledged funds and debt service is gross of the subsidy.				
Pre-2010 GANS				
Receipts	$ 755,985	$ 623,410	$ 761,351	$ 828,956
Operating Expenses	N/A	N/A	N/A	N/A
Net Available Revenues	$ 755,985	$ 623,410	$ 761,351	$ 828,956
Annual Debt Service	$ 184,394	$ 188,379	$ 196,248	$ 204,788
Debt Service Coverage Ratio	4.10	3.31	3.88	4.05
Ratings History of Bonds*	Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA
Amount appropriated for national federal highway spending (federal fiscal year) (billions) (1)	$ 41,691	$ 44,323	$ 43,040	$ 39,358
December 2010 GANS (Includes Revenues in Excess of those Needed to Pay Debt Service on Pre-2010 Highway Bonds and GANS)				
Receipts	$ 1,674,485	$ 909,546		
Operating Expenses	N/A	N/A		
Net Available Revenues	$ 1,674,485	$ 909,546		
Annual Debt Service	$ 2,777	$ 2,039		
Debt Service Coverage Ratio	603.07	446.01		
Ratings History of Bonds*	AAA, Aa2, AA+	AAA, Aa2, AA+		

*(1) Source: The Federal Budget for Fiscal 2013, Historical Tables, Table 9.6 2012 is estimated. *Uninsured rating, if available.*

2008	2007	2006	2005	2004	2003
$ 194,785	$ 148,047	$ 239,469	$ 196,210	$ 196,380	$ 194,232
N/A	N/A	N/A	N/A	N/A	N/A
$ 194,785	$ 148,047	$ 239,469	$ 196,210	$ 196,380	$ 194,232
$ 56,535	$ 58,867	$ 56,545	$ 48,378	$ 124,751	$ 52,123
3.45	2.51	4.24	4.06	1.57	3.73
AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA
$ 78,984	$ 66,347	$ 55,052	$ 50,561	$ 35,103	
N/A	N/A	N/A	N/A	N/A	
$ 78,984	$ 66,347	$ 55,052	$ 50,561	$ 35,103	
$ 35,600	$ 34,486	$ 33,964	$ 18,350	$ -	
2.22	1.92	1.62	2.76	NMF	
A2, A	A2, A	A2, A	A2, A	A2, A	
$ 463,588	$ 462,484	$ 451,284	$ 449,331	$ 599,040	$ 507,716
N/A	N/A	N/A	N/A	N/A	N/A
$ 463,588	$ 462,484	$ 451,284	$ 449,331	$ 599,040	$ 507,716
$ 211,709	$ 211,712	$ 211,712	$ 95,223	$ 93,466	$ 74,822
2.19	2.18	2.13	4.72	6.41	6.79
Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA
$ 36,747	$ 34,373	$ 33,975	$ 31,433	$ 30,188	$ 30,379

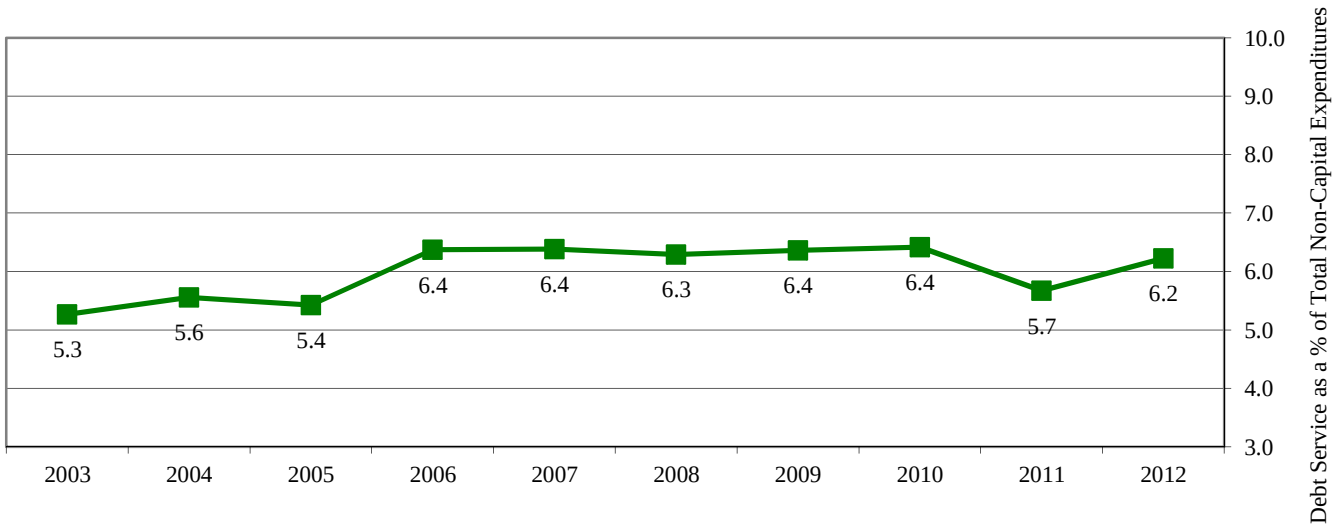
Ten-Year Schedule of Percentage of Annual Debt Service Expenditures
For General Bonded Debt to Total Non-Capital Expenditures - Fund Perspective
All Governmental Fund Types

(Amounts in thousands)

Fiscal year ended June 30	Debt service	Total Non-capital expenditures	Ratio (%)
2012	$ 2,504,253	$ 40,234,846	6.2
2011	2,219,667	39,126,733	5.7
2010	2,407,270	37,519,262	6.4
2009	2,409,590	37,878,441	6.4
2008	2,238,939	35,608,652	6.3
2007	2,165,502	33,918,074	6.4
2006	2,028,441	31,831,391	6.4
2005	1,719,489	31,699,602	5.4
2004	1,604,850	28,888,360	5.6
2003	1,467,007	27,857,856	5.3

Amounts are shown net of Massachusetts School Building Authority expenditures and debt service. Business type activities debts are secured solely by leases between the Institutions of Higher Education and two blended building authorities.

Debt Service to Non-Capital Expenditures Ratio 2003- 2012



Component Units Revenue Bond Coverage
For the Last Ten Fiscal Years

(Amounts in thousands)

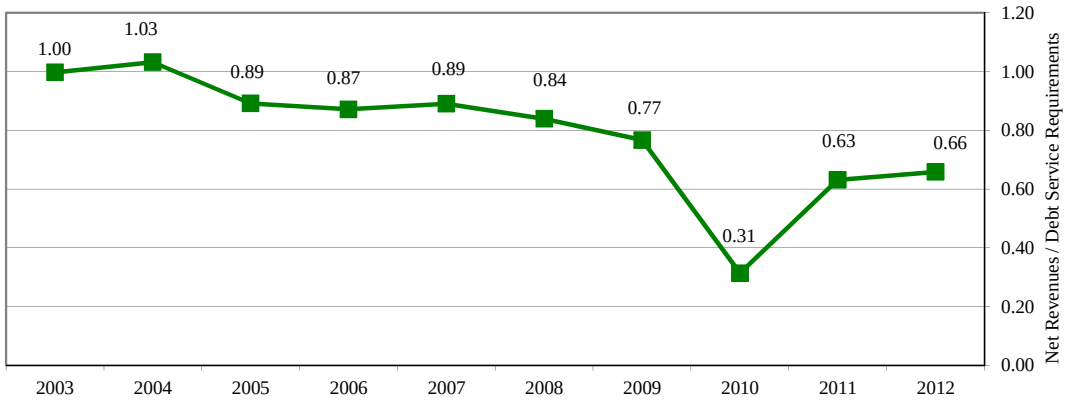
Fiscal year ended June 30	Net revenues [1]	Debt service requirements [2]	Coverage Ratio (%)
2012	$ 998,905	$ 1,517,899	0.66
2011	738,470	1,170,149	0.63
2010	433,617	1,383,231	0.31
2009	805,316	1,050,655	0.77
2008	728,445	868,331	0.84
2007	870,919	978,819	0.89
2006	717,190	823,406	0.87
2005	648,282	727,316	0.89
2004	700,677	679,457	1.03
2003	663,234	665,538	1.00

(1) Net revenues represent the regular recurring operating income (loss) plus operating grants, transfers and depreciation of only those Authorities with revenue bonds outstanding. Beginning FY2010, interest expenses were included in the net revenue calculation.

(2) Debt service requirements represent total debt service payments made less debt service paid on short-term borrowings of only those Authorities with revenue bonds outstanding.

Source: Office of the Comptroller

Component Units Revenue Bond Coverage 2003 - 2012



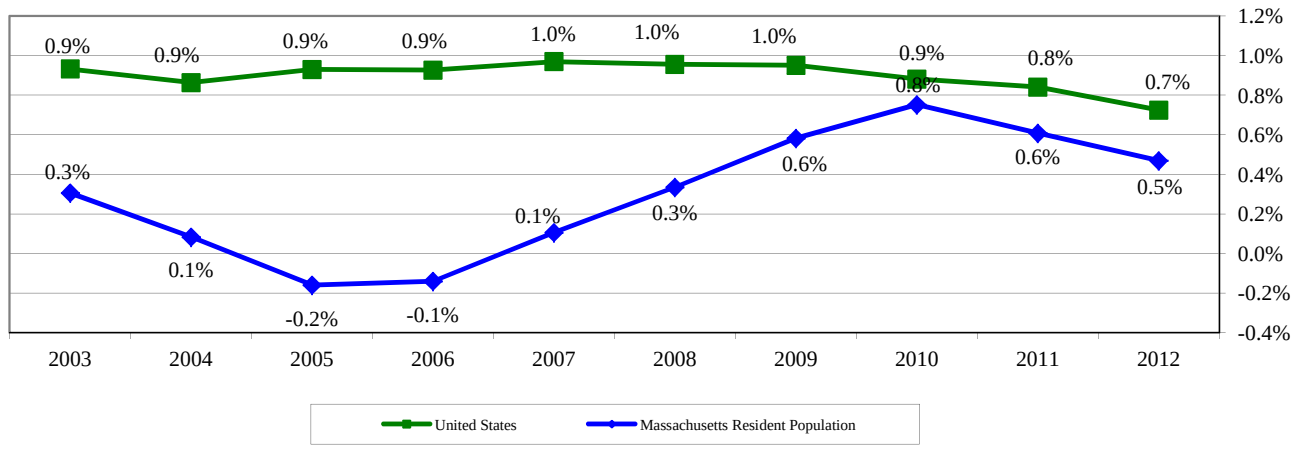
Ten-Year Schedule of Massachusetts and United States Resident Population

(Amounts in thousands)

Beginning of Fiscal Year	United States	% Change	Massachusetts Resident Population [1]	% Change	Massachusetts as % of U.S.
2012	311,592	0.7%	6,588	0.5%	2.1%
2011	309,350	0.8%	6,557	0.6%	2.1%
2010	306,772	0.9%	6,518	0.8%	2.1%
2009	304,094	1.0%	6,469	0.6%	2.1%
2008	301,231	1.0%	6,432	0.3%	2.1%
2007	298,380	1.0%	6,410	0.1%	2.1%
2006	295,517	0.9%	6,403	-0.1%	2.2%
2005	292,805	0.9%	6,412	-0.2%	2.2%
2004	290,108	0.9%	6,423	0.1%	2.2%
2003	287,625	0.9%	6,417	0.3%	2.2%

(1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of 7/1 of the previous year. *Source: - Census.Gov (US Census Bureau.).*

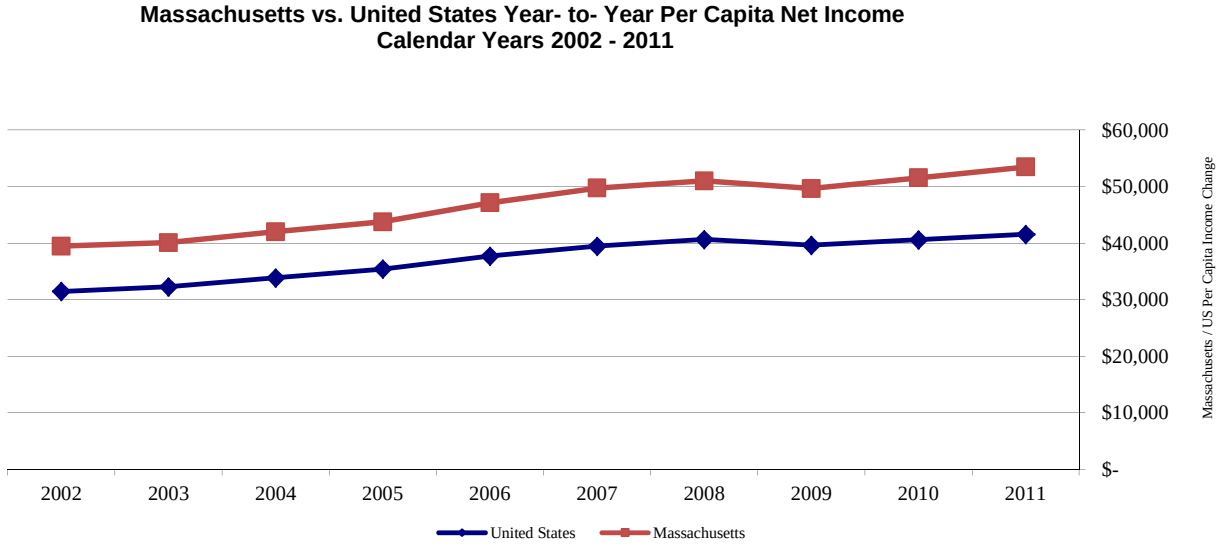
Massachusetts and United States Estimated Year- to- Year Population Change
2003 - 2012



Ten-Year Schedule of Massachusetts and United States Resident Per Capita Net Income

Calendar Year	United States	% Change	Massachusetts	% Change	Massachusetts as % of U.S.
2011	$ 41,560	2.4%	$ 53,471	3.7%	128.7%
2010	40,584	2.4%	51,552	3.8%	127.0%
2009	39,626	-2.6%	49,643	-2.7%	125.3%
2008	40,673	4.3%	51,028	4.3%	127.5%
2007	39,458	4.7%	49,727	5.5%	126.0%
2006	37,698	6.4%	47,144	7.7%	125.1%
2005	35,424	4.6%	43,757	4.1%	123.5%
2004	33,881	5.0%	42,021	4.8%	124.0%
2003	32,271	2.6%	40,083	1.6%	124.2%
2002	31,461	1.0%	39,451	0.0%	125.4%

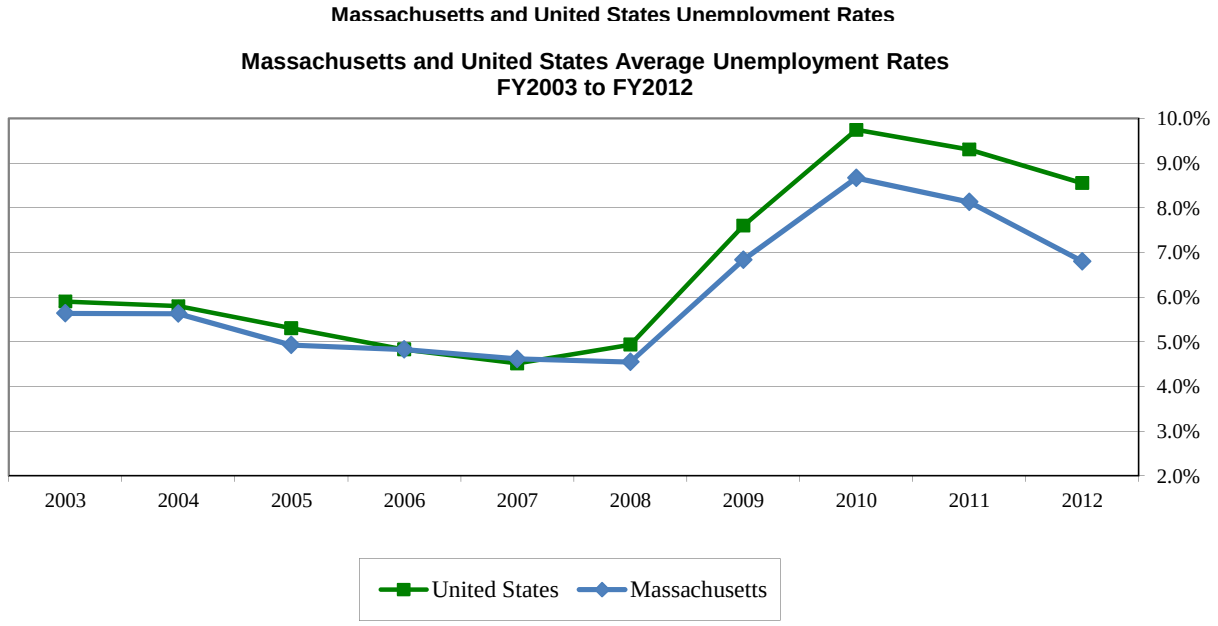
Source: Bureau of Economic Analysis, US Department of Commerce. Revised state personal income estimates for 1990-2010 were released on March 23, 2011.



Ten-Year Schedule of Fiscal Year Annual Average Civilian Labor Force, Unemployment and Unemployment Rates For Massachusetts and the United States

(Amounts in thousands)

	Massachusetts			United States			
Fiscal Year	Labor Force	Unemployment	Unemployment Rate %	Labor Force	Unemployment	Unemployment Rate %	Massachusetts Rate as % of U.S. Rate
2012	3,455	235	6.8%	154,285	13,176	8.6%	79.5%
2011	3,497	284	8.1%	153,654	14,288	9.3%	87.4%
2010	3,484	302	8.7%	153,916	15,006	9.7%	89.0%
2009	3,479	238	6.8%	154,555	11,758	7.6%	89.9%
2008	3,446	157	4.6%	153,686	7,591	4.9%	92.2%
2007	3,432	158	4.6%	152,436	6,898	4.5%	102.2%
2006	3,399	164	4.8%	150,353	7,252	4.8%	100.0%
2005	3,376	166	4.9%	148,241	7,861	5.3%	92.6%
2004	3,396	191	5.6%	146,815	8,512	5.8%	96.7%
2003	3,421	193	5.6%	145,740	8,600	5.9%	95.6%



Source: - Federal Bureau of Labor Statistics, November 2012. Seasonally adjusted. Previous data may be updated by the Federal Bureau of Labor Statistics.

Largest Private Sector Massachusetts Employers 2012 and 2003

(Alphabetical Order)

2012			2003		
Employer	Headquarters	Product or Service	Employer	Headquarters	Product or Service
Bay State Medical Center, Inc.	Springfield	Hospital	Bay State Medical Center, Inc	Springfield	Insurance
Beth Israel Deaconess Medical Center	Boston	Hospital	Beth Israel Deaconess Medical Center	Boston	Hospital
Boston Medical Center Corporation	Boston	Hospital	Boston Medical Center Corporation	Boston	Hospital
Boston University	Boston	University	Brigham and Women's Hospital, Inc.	Boston	Hospital
Brigham and Women's Hospital, Inc.	Boston	Hospital	Caritas Christi Inc	Boston	Hospital
DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket	CGU Corp	Boston	Insurance
EMC Corporation	Hopkinton	Computer Storage & Peripherals	Children's Hospital Corp	Boston	Hospital
General Hospital Corporation	Boston	Hospital	Dennison Manufacturing	Framingham	Office Products
Harvard University	Cambridge	University	FMR Co. (Fidelity)	Boston	Investments
Massachusetts Institute of Technology	Cambridge	University	John Hancock Life Insurance Company	Boston	Insurance
Partners Healthcare Systems, Inc.	Boston	Hospital	Lahey Clinic	Burlington	Hospital
Raytheon Company	Lexington	Electronics / Defense	Liberty Mutual Insurance Company, Inc. (and Subsidiaries)	Boston	Insurance
S & S Credit Company, Inc (Stop & Shop)	Quincy	Supermarket	Massachusetts General Hospital	Boston	Hospital
Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket	Massachusetts Mutual Life Insrance Co	Springfield	Insurance
Southcoast Hospitals Group	New Bedford	Hospital	New England Medical Center Hospitals	Boston	Hospital
State Street Bank and Trust Company	Boston	Banking	Putnam Investments	Boston	Investments
The Children's Hospital Corporation	Boston	Hospital	Raytheon Company	Lexington	Electronics / Defense
UMASS Memorial Medical Center, Inc.	Worcester	Hospital	State Street Bank and Trust Company	Boston	Banking
			Tufts Associated Health Maintenance Organization	Waltham	HMO

Source: - Massachusetts Executive Office of Labor and Workforce Development, Division of Unemployment Assistance - March 2011 survey. In addition, Bank of America NA,, Home DepotUSA, Inc., Massachusetts CVS Pharmacy LLC, Target Corp, United Parcel Service, Inc and Wal-Mart Associates, Inc. are all large Massachusetts employers, but are headquartered outside of Massachusetts. Verizon New England is a subsidiary of Verizon Communications, headquartered in New York. The information is based on employers registered for unemployment insurance. The list may not include those employers who do business in Massachusetts under multiple legal corporations and those who registereach store, facility or franchisee as a separate employer.

Full Time Equivalent Employees
By Function / Program
Last Ten Years

Functions / Programs	2012	2011	2010	2009	2008
General government	7,408	8,020	8,280	6,277	6,368
Judiciary	7,087	7,111	7,388	7,821	8,021
Energy and environmental affairs	2,685	2,737	2,783	2,955	2,928
Health and human services	21,042	21,011	21,401	22,605	23,322
Transportation and construction	4,230	4,209	4,127	3,043	2,892
Education	922	1,037	1,575	844	615
Public safety and homeland security	16,503	15,785	15,857	13,951	14,242
Housing and economic development	845	831	846	2,314	2,302
Higher Education:					
University of Massachusetts	14,159	14,159	14,031	13,814	13,651
State universities	4,747	4,487	4,282	4,650	4,519
Community colleges	4,834	4,684	4,276	4,781	4,775
Totals	**84,462**	**84,070**	**84,846**	**83,055**	**83,636**
Percentage Change	**0.5%**	**-0.9%**	**2.2%**	**-0.7%**	**1.7%**

Source: Office of the State Comptroller

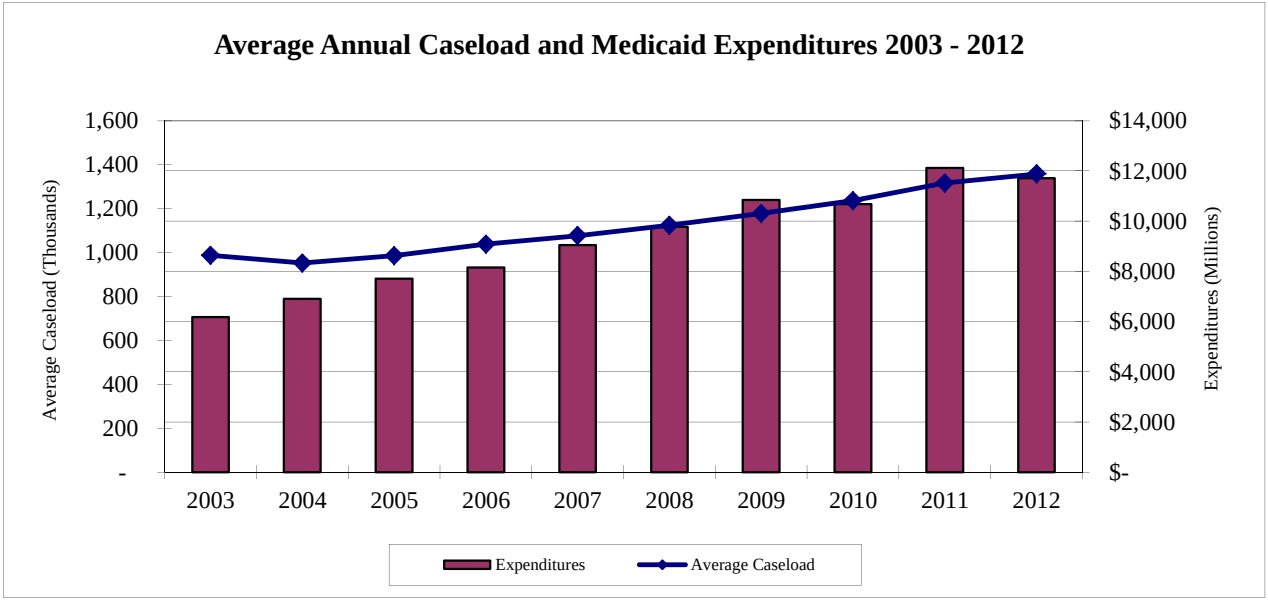
"Education" includes the Department of Elementary & Secondary Education, Executive Office of Education, Board of Higher Education and in 2009 Early Education and Care. Transportation and constructions includes MassDOT. FTE's are rounded. Prior years not restated for changes. Includes approximately 6,600 FTEs transferred to the Commonwealth's payroll in FY09 and FY10 in the categories of Higher Education, Transportation and construction and Public safety and homeland security (see page 23 of Management's Discussion and Analysis for details).

2007	2006	2005	2004	2003	Change - 2012 from 2003
6,204	6,177	5,750	5,449	5,644	31.3%
7,993	7,635	7,467	7,099	7,198	-1.5%
2,847	2,686	2,744	2,612	2,814	-4.6%
22,972	22,935	22,855	22,229	23,087	-8.9%
1,903	2,708	2,759	1,794	1,843	129.5%
617	651	587	569	579	59.1%
14,550	13,517	13,152	13,578	13,964	18.2%
2,339	2,264	2,299	2,300	2,322	-63.6%
13,602	13,360	12,807	12,356	12,513	13.2%
4,495	4,301	4,224	3,914	3,957	20.0%
4,689	4,603	4,523	4,219	4,408	9.7%
82,211	**80,837**	**79,167**	**76,120**	**78,328**	7.8%
1.7%	**2.1%**	**4.0%**	**-2.8%**	**-0.2%**	

Average Annual Medicaid Caseload and Medicaid Expenditures - Fund Perspective
Last Ten Fiscal Years

(Caseload amounts in thousands, Expenditure amounts in Millions)

Fiscal year ended June 30	Average Annual Caseload	Medicaid expenditures	Average Expenditures per Case
2012	1,358	$ 11,708	$ 8,622
2011	1,317	12,124	9,206
2010	1,236	10,678	8,639
2009	1,178	10,843	9,205
2008	1,124	9,770	8,690
2007	1,077	9,044	8,397
2006	1,038	8,151	7,853
2005	986	7,706	7,815
2004	952	6,909	7,257
2003	987	6,177	6,258



Massachusetts Road Inventory
Calendar Year End, Lane Miles by Type
Last Ten Calendar Years

Calendar Year	Interstate	Arterial	Collector	Local	Total	% Change	Total Urban	Total Rural
2011	3,212	15,051	9,611	44,300	72,174	0.20%	81.1%	18.9%
2010*	3,210	15,047	9,607	44,169	72,033	0.20%	81.1%	18.9%
2009	3,212	14,974	9,589	44,112	71,887	0.30%	81.1%	18.9%
2008	3,212	14,976	9,591	43,893	71,672	0.41%	81.1%	18.9%
2007	3,213	14,993	9,566	43,612	71,383	0.17%	80.9%	19.1%
2006	3,209	14,958	9,567	43,527	71,261	0.31%	81.0%	19.0%
2005	3,202	14,966	9,573	43,303	71,044	0.11%	81.0%	19.0%
2004	3,202	14,929	9,584	43,260	70,967	0.96%	81.0%	19.0%
2003	3,186	13,513	10,950	42,654	70,295	0.00%	68.7%	31.3%
2002	3,186	13,513	10,950	42,654	70,295	0.21%	68.7%	31.3%

*2010 was restated to include both urban and rural roads.

Source: Massachusetts Highway Department, Bureau of Transportation Planning and Development Annual Road Inventory Reports, Lane Miles Table 8. Exclusive of shoulders.

Massachusetts Real Property Owned and Leased
Annual Inventory, Acreage, Improvements and Square Footage
Last Ten Years

Functions / Programs	Survey Year 2012	Survey Year 2011	Survey Year 2010	Survey Year 2009	Survey Year 2008
General Government:					
Total Acreage	3,039	2,993	2,373	2,495	1,858
Number of Improvements	279	255	227	240	163
Gross square footage	7,690,761	7,206,548	6,797,819	6,660,792	5,736,028
Judiciary:					
Total Acreage	148	141	141	141	145
Number of Improvements	73	68	68	69	71
Gross square footage	4,700,920	4,787,564	4,787,564	4,826,836	5,080,836
Energy and environmental affairs					
Total Acreage	642,799	627,286	623,952	606,662	591,511
Number of Improvements	2,191	2,182	2,183	2,170	2,162
Gross square footage	7,283,666	7,295,922	7,299,322	7,246,280	7,242,870
Housing and economic development:					
Total Acreage	2	2	2	2	2
Number of Improvements	5	6	6	6	6
Gross square footage	68,412	77,642	77,642	77,642	77,642
Health and human services:					
Total Acreage	6,407	6,449	7,196	7,166	7,259
Number of Improvements	855	866	866	902	980
Gross square footage	10,923,090	10,834,266	10,809,259	11,214,034	12,270,433
Transportation and public works:					
Total Acreage	6,972	7,013	6,966	7,050	6,930
Number of Improvements	919	918	918	915	915
Gross square footage	4,876,689	4,873,783	4,876,689	4,876,936	4,876,936
Education:					
Total Acreage	208	233	233	233	233
Number of Improvements	43	43	43	43	43
Gross square footage	272,352	272,352	272,352	272,352	272,352
Public safety and homeland security:					
Total Acreage	19,172	19,158	18,693	18,331	18,324
Number of Improvements	990	991	1,029	1,028	1,023
Gross square footage	12,191,229	12,141,396	12,685,447	12,632,897	12,631,497
Higher Education:					
Total Acreage	7,254	7,178	7,169	7,151	7,149
Number of Improvements	1,007	987	975	937	940
Gross square footage	32,523,400	32,144,815	32,117,854	31,101,329	31,197,929
Totals for Commonwealth (exclusive of Component Units):					
Total Acreage	**686,001**	**670,454**	**666,725**	**649,231**	**633,412**
Number of Improvements	**6,362**	**6,316**	**6,315**	**6,310**	**6,303**
Gross square footage	**80,530,519**	**79,634,288**	**79,723,948**	**78,909,098**	**79,386,523**
Percentage Change for Commonwealth:					
Acreage	**2.3%**	**0.6%**	**2.7%**	**2.5%**	**0.8%**
Improvements	**0.7%**	**0.0%**	**0.1%**	**0.1%**	**0.1%**
Gross square footage	**1.1%**	**-0.1%**	**1.0%**	**-0.6%**	**0.3%**

Source: Executive Office of Administration and Finance, Division of Capital Asset Management. 2002's large change was due to the absorbtion of county properties. See http://www.mass.gov/Eoaf/docs/dcam/dlforms/re/massets_report_2010.pdf.

Survey Year 2007	Survey Year 2006	Survey Year 2005	Survey Year 2004	Survey Year 2003
1,681	2,050	2,772	2,486	3,137
84	232	300	306	263
4,767,751	6,745,962	8,429,827	8,315,791	8,428,905
135	118	117	114	113
71	68	68	68	68
4,889,645	4,351,128	4,884,206	4,884,206	4,952,821
586,173	569,282	558,347	552,857	539,437
2,156	2,159	2,168	1,916	1,903
7,185,678	7,057,840	7,039,038	6,677,076	6,601,985
2	2	2	2	2
6	6	6	6	6
77,642	77,642	76,812	76,812	76,812
7,604	7,615	7,311	7,284	7,561
1,059	1,001	992	997	1,068
13,371,858	12,333,804	12,251,382	12,493,551	13,339,508
6,933	7,217	7,175	7,513	7,736
914	910	908	909	909
4,856,942	4,845,365	4,812,965	4,821,599	4,823,279
233	233	233	234	233
43	43	43	44	43
272,352	272,352	272,352	272,352	272,352
18,319	17,530	17,515	17,454	17,485
1,031	1,026	1,038	1,037	1,069
12,768,250	12,885,742	13,137,177	13,131,414	13,563,676
7,133	7,089	7,138	7,163	7,169
932	933	941	939	935
30,947,996	30,870,743	30,997,427	30,728,820	30,267,370
628,212	**611,136**	**600,609**	**595,107**	**582,873**
6,296	**6,378**	**6,464**	**6,222**	**6,264**
79,138,114	**79,440,578**	**81,901,186**	**81,401,621**	**82,326,708**
2.8%	**1.8%**	**0.9%**	**2.1%**	**4.9%**
-1.3%	**-1.3%**	**3.9%**	**-0.7%**	**-5.7%**
-0.4%	**-3.0%**	**0.6%**	**-1.1%**	**-3.5%**

Massachusetts Public Higher Education
Enrollment and Degrees Conferred
Last Ten Academic Years

Academic Year	Fall 2011	Fall 2010	Fall 2009	Fall 2008	Fall 2007
ENROLLMENT, TUITION AND FEES					
University System					
Undergraduate (FTE)……	47,432	48,018	44,543	42,768	40,806
Graduate (FTE)……	12,048	11,734	10,177	9,460	9,328
System Enrollment……..…	**59,480**	**59,752**	**54,720**	**52,228**	**50,134**
State University System					
Undergraduate (FTE)……..….	35,639	36,721	34,129	33,040	32,106
Graduate (FTE)……..……	6,224	7,227	4,582	4,495	4,428
System Enrollment……..…	**41,863**	**43,948**	**38,711**	**37,535**	**36,535**
Community College System					
Undergraduate (FTE)……	64,586	64,971	60,602	54,228	51,257

	2012	2011	2010	2009	2008
DEGREES CONFERRED					
University System					
Certificates (MD's)……	348	246	329	280	270
Associate's……...	97	100	111	103	96
Bachelors……	10,399	9,958	9,362	8,763	8,437
Masters……..….	3,360	3,242	3,029	2,882	2,808
Doctoral……	450	414	400	381	390
Cert. of Adv. Grad. Study……	89	87	79	70	86
Post-Bacc. Certificate……	659	550	509	173	133
First Professional……	43	47	-	-	-
Total Degrees……..…	**15,445**	**14,644**	**13,819**	**12,652**	**12,220**
State University System					
Certificates……..….	29	35	572	605	597
Bachelors……	7,722	7,190	6,886	6,621	6,328
Masters……..….	2,404	2,376	2,467	2,343	2,318
Cert. of Adv. Grad. Study……	143	116	170	157	224
Post-Bacc. Certificate……	362	408	362	406	347
Total Degrees……..…	**10,660**	**10,125**	**10,457**	**10,132**	**9,814**
Community College System					
Certificates……..….	2,888	3,020	2,770	2,587	2,495
Associates……..….	10,404	9,693	9,257	8,549	8,247
Total Degrees……	**13,292**	**12,713**	**12,027**	**11,136**	**10,742**
Total All Systems - Degrees……	**39,397**	**37,482**	**36,303**	**33,920**	**31,986**

Source: Massachusetts Board of Higher Education. Enrollment information based at the start of the academic year.

Fall 2006	Fall 2005	Fall 2004	Fall 2003	Fall 2002	Change - 2011 from 2002
39,283	38,286	37,598	37,904	37,762	25.6%
8,906	8,549	8,494	8,494	8,334	44.6%
48,189	**46,835**	**46,093**	**46,398**	**46,097**	**29.0%**
31,384	30,464	29,051	29,238	26,489	34.5%
4,352	4,258	8,658	8,360	7,296	-14.7%
35,736	**34,722**	**37,709**	**37,598**	**33,785**	**23.9%**
49,347	48,555	50,972	51,067	49,483	30.5%

2007	2006	2005	2004	2003	Change - 2012 from 2003
268	260	167	150	146	138.4%
117	99	95	119	106	-8.5%
8,191	8,089	8,205	7,764	7,645	36.0%
2,503	2,484	2,588	2,467	2,311	45.4%
443	371	389	407	322	39.8%
77	97	88	67	63	41.3%
146	115	63	56	30	2096.7%
-	-	-	-	-	100.0%
11,745	**11,515**	**11,595**	**11,030**	**10,623**	**45.4%**
615	556	540	490	535	-94.6%
6,207	5,885	5,549	5,525	5,545	39.3%
2,201	2,190	2,048	2,157	2,053	17.1%
151	179	142	108	121	18.2%
431	361	369	361	392	-7.7%
9,605	**9,171**	**8,648**	**8,641**	**8,646**	**23.3%**
2,297	2,422	2,278	2,281	1,947	48.3%
7,942	8,024	7,993	7,670	7,184	44.8%
10,239	**10,446**	**10,271**	**9,951**	**9,131**	**45.6%**
31,589	**31,132**	**30,514**	**29,622**	**28,400**	**38.7%**

Calculation of Transfers: Stabilization Fund

June 30, 2012
(Amounts are in thousands)

This statement is prepared on the statutory basis of accounting pursuant to General Laws Chapter 29, Section 5c, as most recently amended by Section 41 of Chapter 239 of the Acts of 2012, which superseded certain parts of Section 5c . It presents information contained in the official books and accounting records of the Commonwealth. Financial statements supporting this calculation are presented in the Financial Section of this report.

	General	Commonwealth Transportation	Massachusetts Tourism	Total
Undesignated Budgeted Fund Balances Before Transfers	**$ 162,364**	**$ 101,199**	**$ 37,731**	$ 301,294
Fund Balance Deficit Elimination Transfers Per Sec. 41 of Ch. 239 of the Acts of 2012	-	-	-	-
Fund Balances after Deficit Elimination Transfers (Consolidated Net Surplus)	**162,364**	**101,199**	**37,731**	**301,294**
Statutory Carryforwards and Transfers per Sec. 41 of Ch. 239 of the Acts of 2012				
1/2 of 1% of Tax Revenue Carryforward to FY13	(106,918)			(106,918)
$15 Million Transfer from General Fund to Massachusetts Life Sciences Investment Fund	(15,000)	-	-	(15,000)
$20 million Transfer from General Fund to Health Care Workforce Transformation Trust Fund	(20,000)	-	-	(20,000)
Distribution of $2,703,119 from General Fund to City of New Bedford Public Schools	(2,703)	-	-	(2,703)
Transfers to General Fund to Enable $40 Million General Fund Carryforward to FY13	22,257	(16,212)	(6,045)	-
$40 million General Fund Carryforward to FY13	(40,000)			(40,000)
Remaining Consolidated Net Surplus to be Deposited in Stabilization Fund per Sec. 41 of Ch. 239 of the Acts of 2012	**(0)**	**84,987**	**31,686**	**116,673**

Stabilization Balance Reconciliation:

Balance as of July 1, 2011		**$ 1,379,071**
Capital Gains Tax Transfers to Stabilization Fund during FY 2012 per Chapter 29, Section 5G		-
Judgments and Settlements In Excess of $10 Million Transferred to Stabilization Fund per Ch. 29, Section 2H		375,021
Investment income, certain tax revenues and other recoveries		11,761
Less: Transfers from Stabilization Fund		
Investment Income to General Fund per Sec.155 of Ch. 68 of the Acts of 2011	(6,986)	
Change in Market Value to General Fund per Sec. 155 of Ch. 68 of the Acts of 2011	(3,422)	
To General Fund and Gaming Fund per Sec. 94 of Ch. 194 of the Acts of 2011	(20,000)	
To General Fund Per Sec. 155 of Ch. 68 of the Acts of 2011	(200,000)	
Total Transfers from Stabilization Fund during FY 2012		(230,408)
Transfer to Stabilization Fund from Temporary Holding Fund, per Chapter 62F, Section 6A		-
Remaining Consolidated Net Surplus Deposited in Stabilization Fund, per Calculation Above		116,673
Stabilization Fund Balance as of June 30, 2012		**$ 1,652,118**

Calculation Of Transfers: Tax Reduction Fund

June 30, 2012
(Amounts in thousands)

This statement is prepared pursuant to Chapters 29 Sections 2H and 2I of the Massachusetts General Laws, as amended. It is prepared on the statutory basis of accounting and presents information contained in the official books and accounting records of the Commonwealth. Supporting information is presented in individual schedules, as indicated, and in the Financial Section of this report.

The computation is as follows:

Part 1: Comparison of Stabilization Fund, after current fiscal year transfers, to 15% of budgeted revenues and other financial resources:		
Undesignated fund balance in the Stabilization Fund	$	1,652,118
Allowable Stabilization Fund balance (per Schedule B)		4,881,982
Stabilization Fund excess, if any, transferable to Tax Reduction Fund	$	-
Part 2: Status of Stabilization Fund after transfers:		
Stabilization Fund balance	$	1,652,118
Transfer to Tax Reduction Fund		-
Stabilization Fund balance after transfer to Tax Reduction Fund	$	1,652,118
Part 3: Status of Tax Reduction Fund after transfers:		
Tax Reduction Fund balance	$	-
Transfers from Stabilization Fund		-
Tax Reduction Fund balance after transfers	$	-

MASSACHUSETTS GENERAL INFORMATION

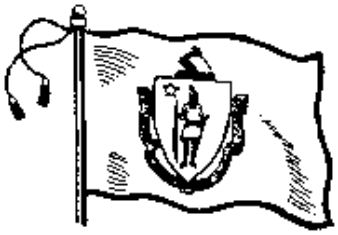
Admitted to Union (6th State): 1788
Population: 6,587,536

Capital: Boston
Nickname: Bay State

The State Seal

The State Seal, adopted by Governor John Hancock and the Council on December 13, 1780 and made official by the General Court on June 4, 1885, is circular and bears a representation of the arms of the Commonwealth encircled with the words "Sigillum Reipublicae Massachusettensis" (Seal of the Republic of Massachusetts). The arms, according to legislative enactment, consists of "a shield having a blue field or surface with an Indian thereon, dressed in a shirt and moccasins, holding in his right hand a bow, and in his left hand an arrow, point downward, all of gold; and in the upper corner of the field, above his right arm, bent at the elbow, clothed and ruffled, with the hand grasping a broadsword."

The State Flag



The State Flag is white, bearing on both sides a representation of the coat of arms. It was adopted in its final form in 1971; before that, the obverse side depicted a pine tree.

The State Flower

The Mayflower

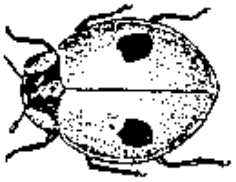
The State Fish

The Cod, a soft-finned fish, usually 10-20bs. A sculpture of a cod hangs in the House of Representatives as a tribute to this useful aquatic creature.

The State Bird

The Black Capped Chickadee

The State Insect



The Lady Bug

The State Tree

The American Elm was adopted as the official tree March 21, 1941 to commemorate the fact that General George Washington took command of the Continental Army beneath one on Cambridge Common in 1775.

The State Dog

The Boston Terrier, the first purebred dog developed in America (1869), is a cross between an English bulldog and an English terrier.

Beverage: Cranberry Juice
Dessert: Boston Cream Pie

Muffin: The Corn Muffin
Cookie: Chocolate Chip

Horse: The Morgan Horse
Bean: Navy Bean